

FROM THE RESEARCH DESK

QUARTERLY RESULTS REVIEW

**Hindustan Zinc**

Operational performance marginally ahead of estimates

**Honeywell Automation India**

EBITDA margin remain strong; Strong earnings outlook sustained

**Shriram City Union Finance**

Impacted by tight liquidity

**Johnson Controls-Hitachi Air Conditioning India**

Subdued quarter

**Mold-Tek Packaging**

Steady quarter; outlook intact

COMPANY UPDATE

**Bharat Petroleum Corporation**

Plausible divestment drives investor interest

## Global News

- U.S. stocks ended lower Tuesday, a day after the S&P 500 index scored a record close, as investors kept their attention on a stream of corporate earnings and awaited the outcome of a Federal Reserve meeting that's expected to deliver another interest rate cut on Wednesday. The Dow Jones Industrial Average fell 19 points, or 0.1%, at 27,071, while the S&P 500 index fell 3 points, or 0.1%, to 3,037, after it notched an all-time intraday high just shy of 3,048. The Nasdaq Composite Index retreated 49 points, or 0.6%, at 8,277.
- Japanese stocks rose to the highest in more than a year on Tuesday, as negotiators from the United States and China moved a step closer to scaling back their bruising trade war in a boost to the prospects for corporate earnings. The benchmark Nikkei benchmark share average ended up 0.5% at 22,974. It earlier rose to 23,008, the highest since Oct. 11, 2018. So far it is up 14.25% for the year.

## Sector & Corporate News

- The government is looking into **Bharat Petroleum Corporation's (BPCL)** investments in a gas block in Mozambique and has not yet formally given its approval to the firm for further spending.
- NTPC** has entered into a Joint Venture (JV) & Shareholders Agreement with the Ceylon Electricity Board for incorporation of 50:50 Joint Venture Company for development of 300 MW (plus/minus) 15% LNG power project at Kerawalapitiya, Sri Lanka.
- Kkalpana Industries (India)** has received approval to hold 98% of the share capital of the Free Zone Limited Liability Company to be established under the laws of the Sultanate, in Sohar Free Zone, Oman. The approximate proposed investment in the said company is \$3 million. The Board of Directors of the Company at its meeting held on October 28, 2019 has approved the same.

## Market Snapshot

Global Indices	Closing	% Chg	% YTD
Dow Jones	27,071	(0.1)	16.0
NASDAQ	8,277	(0.6)	24.7
FTSE	7,306	(0.3)	8.6
CAC	5,740	0.2	21.3
DAX	12,940	(0.0)	22.5
Russia	1,424	0.9	33.2
Bovespa	107,556	(0.6)	22.4
Nikkei	22,974	0.5	14.5
Hang Seng	26,787	(0.4)	3.6
Shanghai Composite	2,954	(0.9)	18.5

Indian Indices	Closing	% Chg	% YTD
Sensex	39,832	1.5	10.4
Nifty	11,787	1.4	8.5
MSCI India	580	1.6	4.0
CNX Midcap	16,478	1.3	(7.8)
BSE Smallcap	13,384	0.6	(9.0)

Flows (USDm)	Prev. Day	MTD
FII	(57)	496

Provisional flows	(USDm)
FII	124
Local	20

Volumes	USDbn	% Chg
Cash (NSE + BSE)	6.6	8.5
F&O (net)	174.6	32.0

FII F&O	Stock Fut	Index Fut
Net (\$ mn)	32	175
Open Int (%)	(3.1)	7.5

ADR/GDR Gainers	Last	% Chg
Tata Motors	12.2	15.1
Dr Reddy	39.7	1.9
Infosys	9.3	1.6
ICICI Bank	13.3	1.4
HDFC	60.8	1.1

ADR/GDR Losers	Last	% Chg
Wipro	3.9	(0.8)
SBI	39.8	(0.7)

## Sectoral indices

	Closing	% Chg	% MTD	% YTD
BSE Auto	18,935	4.2	13.0	(9.1)
BSE Bank	33,776	1.1	2.7	11.2
BSE Cap Goods	18,644	1.4	(0.3)	(0.9)
BSE Cons dur	27,014	0.7	4.4	30.5
BSE FMCG	12,098	0.5	2.8	2.3
BSE IT	14,908	1.7	(4.9)	5.8
BSE Health	13,101	0.9	4.9	(5.9)
BSE Metal	9,383	4.2	3.3	(20.7)
BSE Oil	15,440	1.2	5.4	12.3
BSE Power	1,972	0.3	2.0	(1.3)
BSE PSU	6,941	1.1	4.2	(4.1)
BSE Realty	2,055	0.7	3.9	14.3
BSE TECK	7,220	0.9	(5.7)	2.2

## Nifty Outperformers

	Price	% Chg	% MTD	% YTD
Tata Motors Ltd	172	16.8	46.8	(0.1)
Tata Steel Ltd	390	6.9	8.2	(25.1)
Jsw Steel Ltd	234	6.8	1.9	(23.6)
Yes Bank Ltd	58	6.2	40.5	(68.0)
Maruti Suzuki India Ltd	7,721	4.0	15.0	3.4
Axis Bank Ltd	738	4.0	7.8	19.1
Tech Mahindra Ltd	755	3.9	5.6	4.4

## Nifty Underperformers

	Price	% Chg	% MTD	% YTD
Bharti Infratel Ltd	193	(9.0)	(24.9)	(25.4)
Bharti Airtel Ltd	360	(3.5)	(1.9)	25.4
Ultratech Cement Ltd	4,118	(1.7)	(5.1)	3.2
Kotak Mahindra Bank Ltd	1,576	(1.1)	(4.2)	25.4
Nestle India Ltd	14,700	(0.8)	5.8	34.7
Bharat Petroleum Corp Ltd	523	(0.7)	11.2	44.1
Zee Entertainment Enterprise	237	(0.7)	(10.9)	(50.3)

## Bulk Deals

Security Name	Client Name	Buy/Sell	Qty	Price	Value (mn)
Lakshmi Vilas Bank Ltd	Capri Global Advisory Services Private Limited	Buy	5,000,000	14.60	73
Lakshmi Vilas Bank Ltd	Motilal Oswal Asset Management Co.Ltd. - Invest In (PMS)	Sell	4,297,838	14.54	62
Lakshmi Vilas Bank Ltd	Capri Global Holdings Private Limited	Buy	2,500,410	14.05	35
AILL	Realstep Vinimay Private Limited	Sell	300,000	28.95	9
AILL	Prithvi Trust	Buy	270,000	28.95	8
AILL	Ketan Kothari Trust	Buy	230,124	28.95	7

## Delivery Spike

Company	Volume	Spike (%)	Chg (%)
Hindustan Zinc Ltd	1,708,707	828%	1.52%
Tata Motors Ltd	6,488,896	804%	17.94%
Tata Motors Ltd	34,207,567	572%	16.76%
Motherson Sumi Systems Ltd	11,161,205	483%	8.78%
Tata Chemicals Ltd	166,590	475%	1.29%
Divi's Laboratories Ltd	150,541	387%	-0.29%
United Breweries Ltd	748,319	379%	-2.52%
Tata Power Co Ltd/The	5,594,529	374%	0.52%
Bharat Forge Ltd	1,211,331	357%	2.31%
Mahindra & Mahindra Ltd	2,871,913	292%	3.43%

## Derivatives Update

## Long Build Up

Company	Last	% Chg	% Chg OI	OI (in 000)
PETRONET	279.15	2.93	11.15	25533
TATAPOWER	58.6	1.47	9.05	59454
GMRINFRA	20.8	4.52	8.90	164655
BALKRISIND	870.05	3.50	8.58	1802

## Short Build Up

Company	Last	% Chg	% Chg OI	OI (in 000)
APOLLOHOSP	1433.75	-5.79	19.67	1591
SRF	2812.6	-1.36	17.36	1122
JUSTDIAL	602.3	-4.37	10.69	2958
MINDTREE	714.95	-0.76	8.92	1611

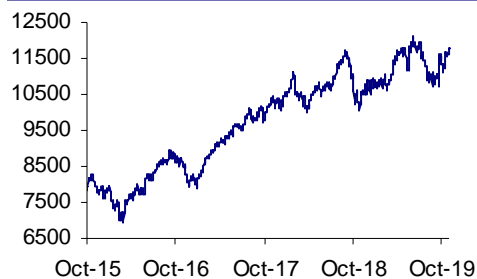
## Long Unwinding

Company	Last	% Chg	% Chg OI	OI (in 000)
L&TFH	94.95	6.39	-12.18	39762
BANKINDIA	67.35	1.89	-11.20	22446
RBLBANK	277.3	6.39	-8.80	15836
IOC	144.4	1.44	-8.42	45468

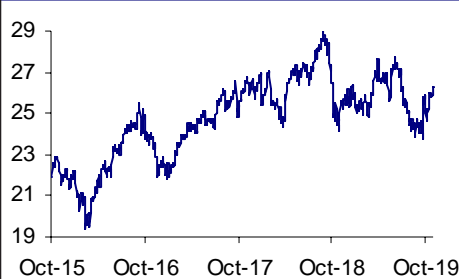
## Short Covering

Company	Last	% Chg	% Chg OI	OI (in 000)
SBIN	281.25	-0.41	-10.00	108654
DISHTV	11.15	-4.70	-7.33	113344
NESTLEIND	14733.4	-0.53	-7.01	527
BHARTIARTL	360.5	-4.14	-5.77	42815

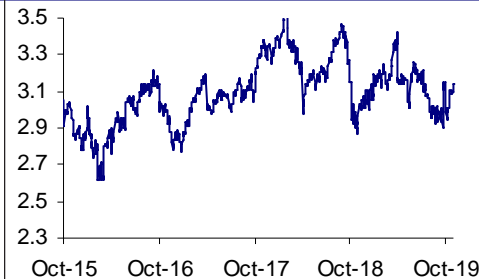
**Nifty**



**Nifty P/E**

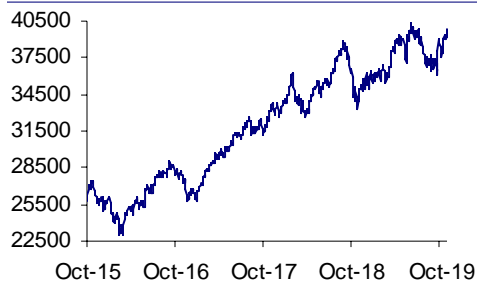


**Nifty P/B**

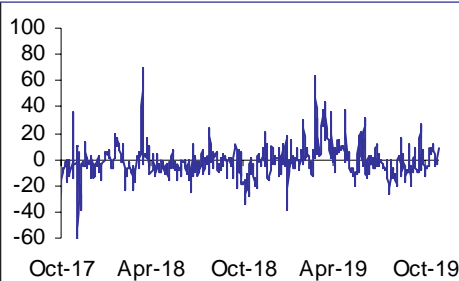


Source: Bloomberg

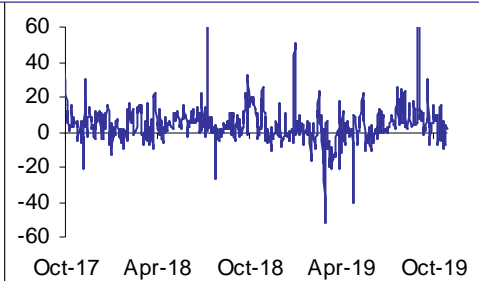
**Sensex**



**FII Provisional Flows (INRbn)**



**DII Provisional Flows (INRbn)**



Source: Bloomberg

**Economy, Money & Banking**

Forex Rate	Last	% Chg	% MTD	% YTD
INR~USD	70.8	0.1	0.0	(1.5)
INR~EUR	78.5	0.3	(1.5)	1.9
INR~GBP	91.2	(0.2)	(4.2)	(2.3)

Bond Market	Last	Chg (bps)	MTD (bps)	YTD (bps)
10 Year Bond	6.5	2	(18)	(85)
Interbank call	5.0	5	(65)	(155)

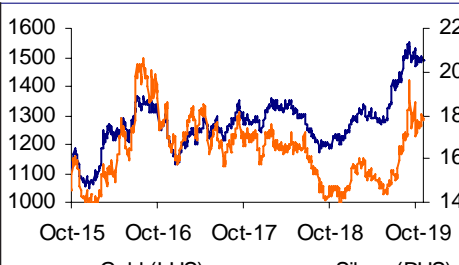
**Commodities Update**

Commodities	Last	% Chg	% MTD	% YTD
Gold (\$/Ounce)	1,488	0.1	1.1	16.1
Crude Oil (\$/Bbl)	55	(0.2)	2.7	14.6
Aluminium (\$/t)	1,752	1.3	2.9	(6.0)
Copper (\$/t)	5,906	0.3	3.7	(0.7)
Zinc (\$/t)	2,587	(0.1)	6.5	2.7
Lead (\$/t)	2,286	1.5	7.5	13.9
Nickel (\$/t)	16,865	1.2	(2.1)	59.0

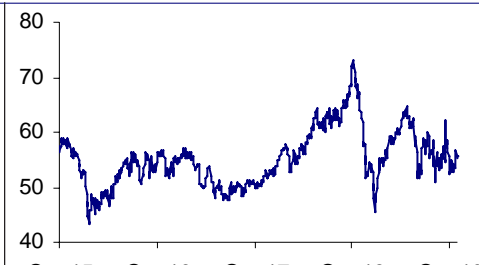
**INR/USD**



**Gold and silver prices (USD/Tr.Oz)**

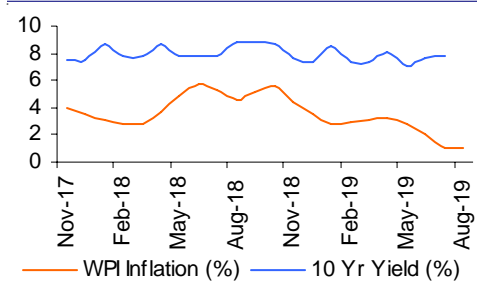


**Crude prices (USD/barrel)**

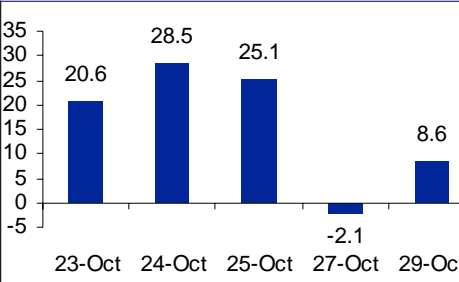


Source: Bloomberg

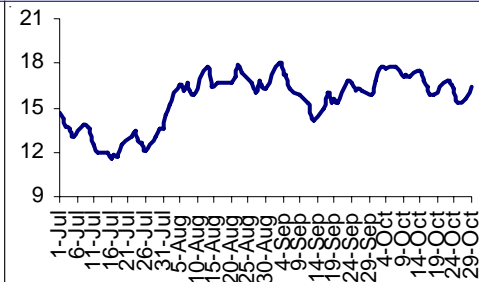
**Inflation vs 10 year yield**



**Nifty premium/discount**



**NSE volatility index (%)**



Source: Bloomberg

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR221
Target Price	: INR241
Potential Return	: 9%

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2QFY20 RESULT REVIEW

# Hindustan Zinc

## Operational performance marginally ahead of estimates

Hindustan Zinc's (HZ) 2QFY20 EBITDA was marginally ahead of our estimates at ~INR21.2bn. Net revenues declined 6% YoY to INR45.1bn due to lower lead and silver volumes, lower LME prices partly offset by higher zinc volumes and higher silver prices. Mined metal production declined 6%YoY and improved 3% QoQ to 219kt. Refined zinc production at 166kt was marginally higher YoY and lower 3.5% QoQ. Zinc metal cost of production, excluding royalty, declined 0.6% QoQ and increased 1.8% YoY in rupee terms to INR73,754/ton. Costs benefited from lower coal prices which were offset by higher electricity duty on captive power generation, lower ore grades and higher mine development expenses. Refined lead production at 44kt declined 10.2% YoY and 8.3% QoQ impacted by production issues at Dariba lead smelter and transient lower grades at Sindesar Khurd (SK) mine. Silver production at 134MT declined 22% YoY and 16% QoQ in line with lower lead production and lower silver grades at SK mine. EBITDA at ~INR 21.2bn declined 9% YoY and 15% QoQ primarily due to lower revenues partly offset by lower exploration costs which were partly capitalized in the quarter. Adjusted PAT at INR20.8bn was higher 15% YoY and 18% QoQ with higher other income and lower effective tax rate offsetting lower EBITDA. Management has revised the FY20 mined metal production guidance downwards to 950kt (1,000kt earlier) and silver production guidance to 650kt from previous guidance of 750MT to 800MT.

Market data	
Sensex	: 39,832
Sector	: Metals
Market Cap (INRbn)	: 930.6
Market Cap (USDbn)	: 13.128
O/S Shares (m)	: 4,225.3
52-wk HI/LO (INR)	: 292/193
Avg Daily Vol ('000)	: 712
Bloomberg	: HZ IN

Source: Bloomberg

Valuation			
	FY19	FY20e	FY21e
EPS (INR)	18.8	18.8	20.1
P/E (x)	11.7	11.7	11.0
P/BV (x)	2.8	2.5	2.2
EV/EBITDA (x)	7.2	6.5	5.8
Dividend Yield (%)	9.1	3.3	3.5

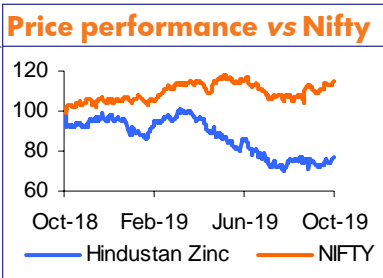
Source: Company, Antique

Returns (%)				
	1m	3m	6m	12m
Absolute	2	2	(19)	(17)
Relative	(1)	(3)	(20)	(30)

Source: Bloomberg

Shareholding pattern		
Promoters	:	65%
Public	:	35%
Others	:	0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

### Mined metal production lower YoY impacted by lower ore grades

Mined metal production declined 6%YoY and improved 3% QoQ to 219kt. Yearly decline in production was due to lower grades at SK mine. Management has revised the FY20 mined metal production guidance downwards to 950kt (1,000kt earlier) and silver production guidance to 650kt from previous guidance of 750MT to 800MT. Production in 2HFY20 is expected to recover at SK mine on account of opening new blocks, faster mine development and higher back filling post commissioning of second paste fill plant.

### Cost of production declines QoQ with lower coal prices partly offset by higher electricity duty

Zinc metal cost of production, excluding royalty, declined 0.6% QoQ and increased 1.8% YoY in rupee terms to INR73,754/ton. Costs benefited from lower coal prices which were offset by higher electricity duty on captive power generation, lower ore grades and higher mine development expenses. Management has projected 2HFY20 cost of production, excluding royalty, to decline to levels of USD 1,030/t as compared to 1HFY20 cost of USD 1,057/t.

### Mined metal capacity to increase to 1.2MTPA in 2HFY20 as guided earlier

The production shaft at Sindesar Khurd mine commissioned earlier has ramped up along with the associated conveyor and automation system. At Rampura Agucha the full shaft commissioning is expected to be complete by Q3FY20. Existing production shaft capacity at Rajpura Dariba is being upgraded from 0.7MTPA to 1.3MTPA and will be completed by Q4FY20. Capex guidance for FY20 has been revised downwards to USD300mn from the previous guidance of USD350-400mn.

### Valuations and outlook

Zinc outlook would be supported by the continued deficit expected in refined zinc in CY19 and low global inventory levels. We align our volume assumptions with the revised management guidance leading to a lower target price of INR241 (260 previously) per share at a multiple of 6.5x FY21E EV/EBITDA and maintain our BUY rating.

### Quarterly financials

INRm	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
<b>Revenues</b>	<b>45,110</b>	<b>47,770</b>	<b>(5.6)</b>	<b>49,870</b>	<b>(9.5)</b>
Expenditure	(23,940)	(24,470)	(2.2)	(25,100)	(4.6)
<b>EBITDA</b>	<b>21,170</b>	<b>23,300</b>	<b>(9.1)</b>	<b>24,770</b>	<b>(14.5)</b>
Other income	5,900	3,980	48.2	4,290	37.5
Depreciation	(5,950)	(4,540)	31.1	(5,340)	11.4
<b>EBIT</b>	<b>21,120</b>	<b>22,740</b>	<b>(7.1)</b>	<b>23,720</b>	<b>(11.0)</b>
Interest	(250)	-	#DIV/0!	(290)	(13.8)
<b>PBT</b>	<b>20,870</b>	<b>22,740</b>	<b>(8.2)</b>	<b>23,430</b>	<b>(10.9)</b>
Taxes	(60)	(4,590)	(98.7)	(5,780)	(99.0)
<b>Reported PAT</b>	<b>20,810</b>	<b>18,150</b>	<b>14.7</b>	<b>17,650</b>	<b>17.9</b>
<b>Adjusted PAT</b>	<b>20,810</b>	<b>18,150</b>	<b>14.7</b>	<b>17,650</b>	<b>17.9</b>
EBITDA margin (%)	46.9	48.8		49.7	
<b>EPS (Rs)</b>	<b>4.9</b>	<b>4.3</b>	<b>14.7</b>	<b>4.2</b>	<b>17.9</b>

Source: Company, Antique

### Key ratios

	2QFY20	2QFY19	YoY - bps	1QFY20	QoQ bps
EBITDA margin (%)	46.9	48.8	(184.6)	49.7	(273.9)
EBIT margin (%)	46.8	47.6	(78.4)	47.6	(74.5)
PAT margin (%)	46.1	38.0	813.7	35.4	1,074.0
ETR (%)	0.3	20.2	(1,989.7)	24.7	(2,438.2)

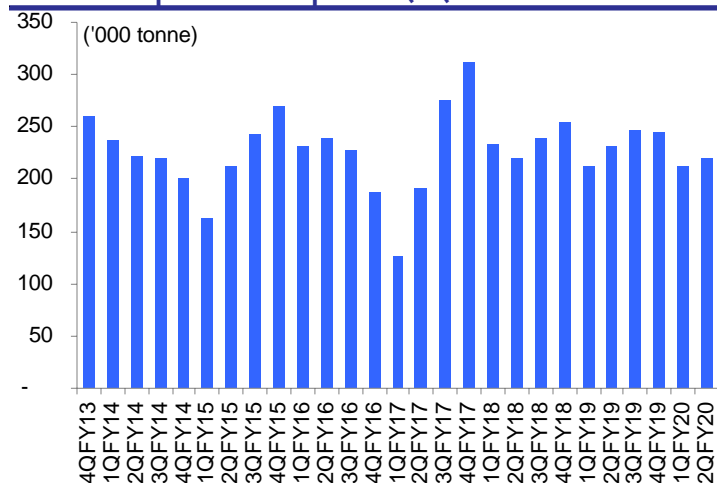
Source: Company, Antique

### Operating metrics

	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
Mined metal production ('000 tonne)	219	232	(5.6)	213	2.8
Refined zinc production ('000 tonne)	166	162	2.5	172	(3.5)
Refined lead production ('000 tonne)	44	49	(10.2)	48	(8.3)
Refined silver production ( tonne)	134	172	(22.1)	159	(15.7)
LME zinc price (USD per tonne)	2,348	2,537	(7.4)	2,759	(14.9)
LME lead price (USD per tonne)	2,028	2,104	(3.6)	1,883	7.7
Silver realization (INR per kg)	42,836	37,205	15.1	37,161	15.3
INR:USD	70.4	70.0	0.5	69.6	1.1
Zinc cost of production - excl royalty (INR per tonne)	73,754	72,449	1.8	74,219	(0.6)
Zinc cost of production - excl royalty (USD per tonne)	1,048	1,034	1.4	1,067	(1.8)

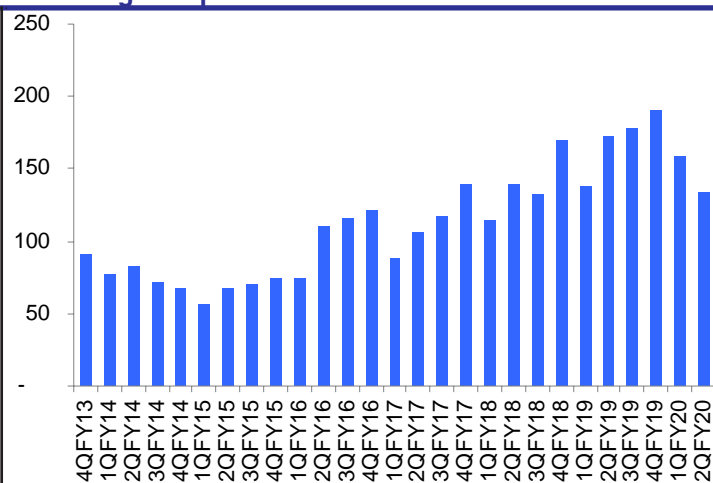
Source: Company, Antique

### Mined metal production improves QoQ



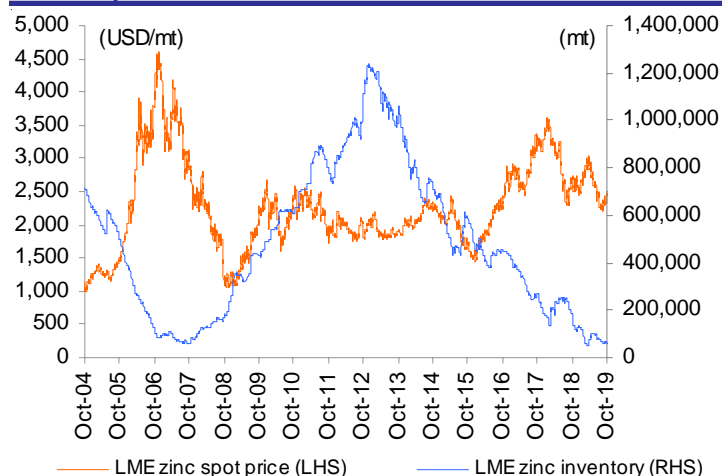
Source: Company, Antique

### Silver integrated production declines - mt



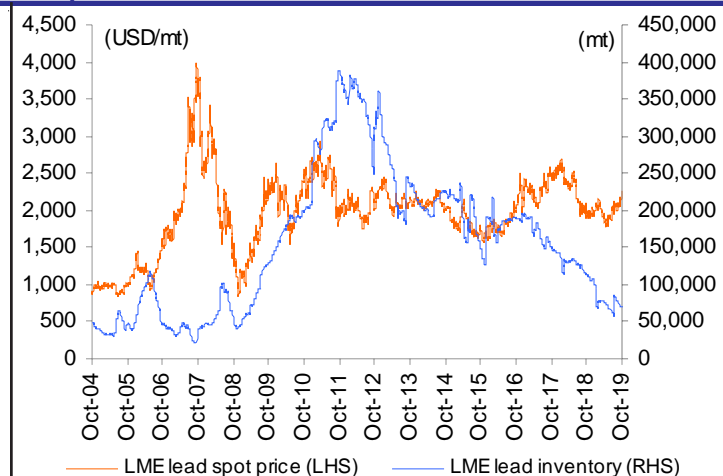
Source: Company, Antique

### LME zinc prices firm off late



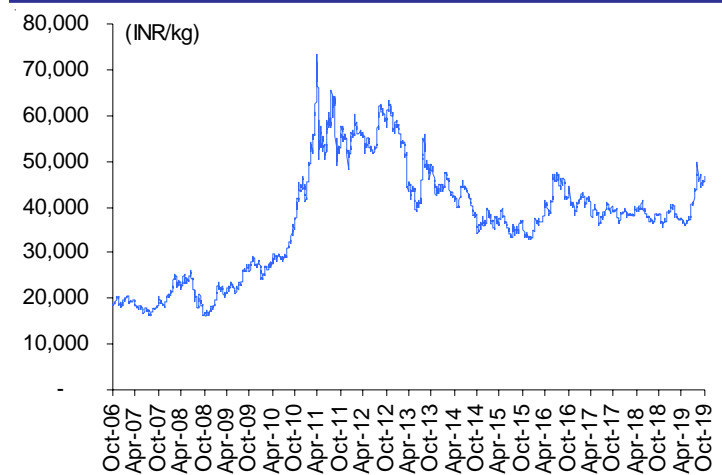
Source: Bloomberg, Antique

### Lead prices rebound



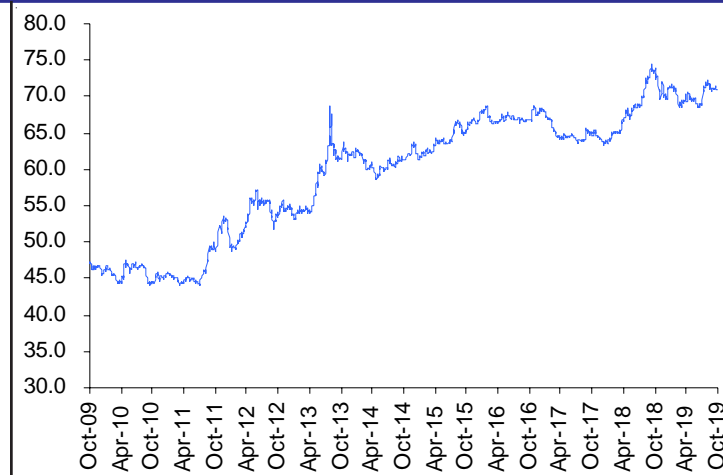
Source: Bloomberg, Antique

### MCX Silver spot prices recover



Source: Bloomberg, Antique

### INR stable



Source: Bloomberg, Antique

### Valuation

FY21e EBITDA (INRm)	1,17,687
EV/EBITDA multiple	6.5
Target EV (INRm)	7,69,676
Add: Net cash @ FY21e	2,48,734
<b>Target market capitalisation (INRm)</b>	<b>10,18,410</b>
<b>Target price (INR per share)</b>	<b>241</b>

Source: Company, Antique

## Financials

### Profit and loss account (INRmn)

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
<b>Revenues</b>	<b>173</b>	<b>221</b>	<b>211</b>	<b>208</b>	<b>220</b>
Expenses	75	98	104	96	102
<b>EBITDA</b>	<b>97</b>	<b>123</b>	<b>107</b>	<b>112</b>	<b>118</b>
Depreciation & amortisation	18	15	19	22	23
<b>EBIT</b>	<b>79</b>	<b>108</b>	<b>88</b>	<b>90</b>	<b>94</b>
Other income	25	18	18	18	20
Interest expense	2	3	1	1	1
<b>Profit before tax</b>	<b>102</b>	<b>123</b>	<b>105</b>	<b>107</b>	<b>113</b>
Extraordinaries	-	2.4	-	-	-
Tax	19	32	25	28	29
<b>Profit after tax</b>	<b>83</b>	<b>93</b>	<b>80</b>	<b>79</b>	<b>85</b>
<b>Adjusted PAT</b>	<b>83</b>	<b>90</b>	<b>80</b>	<b>79</b>	<b>85</b>
<b>EPS (INR)</b>	<b>19.7</b>	<b>21.4</b>	<b>18.8</b>	<b>18.8</b>	<b>20.1</b>

### Balance sheet (INRmn)

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
Share Capital	8	8	8	8	8
Reserves & Surplus	300	351	328	370	416
<b>Networth</b>	<b>308</b>	<b>359</b>	<b>336</b>	<b>379</b>	<b>425</b>
Debt	79	8	35	10	10
<b>Capital Employed</b>	<b>387</b>	<b>368</b>	<b>371</b>	<b>388</b>	<b>434</b>
Gross Fixed Assets	179	207	258	295	316
Accumulated Depreciation	79	94	111	132	156
<b>Net Assets</b>	<b>100</b>	<b>113</b>	<b>147</b>	<b>163</b>	<b>160</b>
Capital work in progress	31	32	23	6	6
Investments	238	202	195	203	251
Liquid Investments	238	202	195	203	251
<b>Current Assets Loans &amp; Advances</b>					
Inventory	19	14	15	14	15
Debtors	1	2	2	2	2
Cash & Bank	2	20	0	8	7
Loans & advances and others	127	47	42	42	45
<b>Current Liabilities &amp; Provisions</b>					
Creditors	130	60	51	47	50
Provisions	1	2	1	2	2
<b>Net Current Assets</b>	<b>19</b>	<b>20</b>	<b>7</b>	<b>17</b>	<b>17</b>
<b>Application of Funds</b>	<b>387</b>	<b>368</b>	<b>371</b>	<b>388</b>	<b>434</b>

### Per share data

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
No. of shares (Mn)	4,225	4,225	4,225	4,225	4,225
BVPS (INR)	72.9	85.0	79.5	89.7	100.5
CEPS (INR)	24.0	24.9	23.3	24.0	25.6
DPS (INR)	29.4	8.0	20.0	7.2	7.7

Source: Company Antique

### Cash flow statement (INRmn)

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
<b>PBT</b>	<b>102</b>	<b>123</b>	<b>105</b>	<b>107</b>	<b>113</b>
Depreciation	18	15	19	22	23
Interest	2	3	1	1	1
(Inc)/ Dec in working capital	(93)	16	(6)	(3)	(0)
Tax paid	(19)	(32)	(25)	(28)	(29)
<b>CF from operating activities</b>	<b>11</b>	<b>124</b>	<b>94</b>	<b>99</b>	<b>109</b>
Capex	(29)	(29)	(41)	(21)	(21)
(Inc)/ Dec in Investments	114	36	7	(8)	(48)
Income from investments	-	2	-	-	-
<b>CF from investing activities</b>	<b>85</b>	<b>9</b>	<b>(34)</b>	<b>(29)</b>	<b>(69)</b>
Inc/ (Dec) in debt	79	(71)	27	(25)	-
Dividends & Interest paid	(151)	(44)	(103)	(38)	(40)
Others	(23)	(1)	(2.7)		
<b>CF from financing activities</b>	<b>(95)</b>	<b>(116)</b>	<b>(79)</b>	<b>(63)</b>	<b>(40)</b>
<b>Net cash flow</b>	<b>1</b>	<b>18</b>	<b>(19)</b>	<b>7</b>	<b>(1)</b>
Add: Opening balance	1	2	20	0	8
<b>Closing balance</b>	<b>2</b>	<b>20</b>	<b>0</b>	<b>8</b>	<b>7</b>

### Growth indicators (%)

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
Revenue	21.4	27.9	(4.4)	(1.7)	5.9
EBITDA	46.7	26.0	(13.1)	5.0	5.1
PAT	1.5	8.7	(12.0)	(0.1)	6.6
EPS	1.5	8.7	(12.0)	(0.1)	6.6

### Valuation

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	11.2	10.3	11.7	11.7	11.0
P/BV (x)	3.0	2.6	2.8	2.5	2.2
EV/EBITDA (x)	7.9	5.9	7.2	6.5	5.8
EV/Sales (x)	4.5	3.3	3.7	3.5	3.1
Dividend Yield (%)	13.3	3.6	9.1	3.3	3.5

### Financial ratios

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
RoE	24.4	27.1	22.9	22.2	21.1
RoCE	76.5	54.3	41.6	37.7	39.9
Debt/Equity (x)	(0.5)	(0.6)	(0.5)	(0.5)	(0.6)

### Margins (%)

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
EBITDA	56.4	55.6	50.5	53.9	53.5
EBIT	45.9	48.9	41.6	43.4	42.9
PAT	48.1	40.9	37.7	38.3	38.6

Source: Company Antique

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR28,400
Target Price	: INR31,150
Potential Return	: 10%

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Market data	
Sensex	: 39,832
Sector	: Industrials
Market Cap (INRbn)	: 251.1
Market Cap (USDbn)	: 3.542
O/S Shares (m)	: 8.8
52-wk HI/LO (INR)	: 29499/18806
Avg Daily Vol ('000)	: 4
Bloomberg	: HWA:IN

Source: Bloomberg

Valuation			
	FY19	FY20e	FY21e
EPS (INR)	405.9	558.2	692.2
P/E	70.0	50.9	41.0
P/BV	14.4	11.3	8.9
EV/EBITDA	48.1	37.9	30.8
Dividend Yield (%)	0.0	0.1	0.1

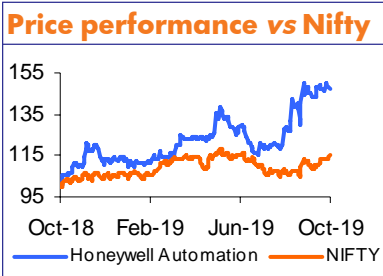
Source: Company, Antique

Returns (%)				
	1m	3m	6m	12m
Absolute	(1)	23	18	47
Relative	(3)	17	16	23

Source: Bloomberg

Shareholding pattern		
Promoters	:	75%
Public	:	25%
Others	:	0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

2QFY20 RESULT REVIEW

# Honeywell Automation India

## EBITDA margin remain strong; Strong earnings outlook sustained

**Honeywell Automation (HAIL) continued on its strong earnings growth trajectory in 2QFY20, in line with expectations, despite muted sales growth. EBITDA margin continues to surge, at 18.2% (up 1.3% YoY) during 2QFY20 and 18.9% during 1HFY20 (up 2.66% YoY). We believe that HAIL is among the most promising industrial engineering companies in India, and a 'pure' play on 'automation' industry which is exhibiting multi-year high growth potential. HAIL is also expected to remain a strong outsourcing partner for the parent company, thereby proving another long-term growth driver to it. True to its potential, the company has demonstrated excellent growth in adverse business environment, posting 13% revenue, and 32% earnings growth in the past five years. With improving growth and pricing environment, we expect HAIL to maintain strong earnings CAGR of 30% over FY19-21E. We maintain BUY with a target price of INR 31,150, based on 45x its FY21E earnings (unchanged).**

**2QFY20 result highlights**

- Revenue growth at 6% YoY was slightly below expectation. Revenue during the quarter stood at INR 8.3bn. 1HFY20 revenue growth was at 8.5% YoY.
- The company has continued its stellar margin performance from 1QFY20 as EBITDA margin expanded 130bps YoY to 18.2%. EBITDA margin for 1HFY20 stands at 18.9% (up 260 bps YoY). Thus, EBITDA grew 14% during the quarter to INR 1.5bn while 1HFY20 EBITDA growth stood at 26%. The company has seen sustained improvement in EBITDA margins starting FY15 (FY15 EBITDA margin - 8.9%). PBT grew 11% for the quarter and 18% for the half year.
- For the quarter, the company reported a tax rate of 27% and for 1HFY20 of 31%. While the company has reported tax on the basis of new taxation announced in Sept. 19, it is still on the higher side and there is potential for lower tax in subsequent quarters of FY20.
- PAT stood at INR 1.2bn growing 23% YoY for the quarter while 1HFY20 PAT growth stood at 24% YoY, at INR 2.3bn.

**Strong growth outlook**

- The company is well-placed to benefit and grow on the back of the following: (1) wide portfolio of products and services; (2) strong support from parent, with emphasis on innovation (the Indian entity has benefited from global product development and acquisition); (3) local product development with access to Honeywell Technology Solution (parent's subsidiary).
- Given their India presence for many decades, HAIL is ideally positioned to capitalize on the industrial automation opportunity. On the other hand, the building technology space is seeing huge growth opportunity due to high-end solutions in new age infrastructure projects like airports, metro and railways, large institutions, healthcare and hospitality sectors.
- High Growth Regions (HGRs) form a key part of Honeywell Inc's global growth strategy, and it targets "at-least" 15% CAGR in HGRs on a sustained basis. Over the years, HAIL, following the global strategic direction of the parent, has meaningfully converted itself into an 'industrial-software' company from being a pure 'industrial hardware' one, thereby improving its growth and profitability outlook. The company derives ~45% of its revenues from export of engineering services, which have been consistently growing.

**Valuation and outlook**

We have broadly maintained earnings estimates, despite cutting revenue estimate by 4-7% in FY20/21, supported by higher EBITDA margin and lower tax rates. There is strong possibility of revival-led revenue growth acceleration beyond FY20. We maintain 'Buy' on the stock with a target price of INR 31,150 valuing the stock at 45x its FY21E earnings (Maintained).



## Quarterly financial highlights

(INR m)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY20	1HFY19	YoY (%)
<b>Revenue</b>	<b>7,823</b>	<b>8,118</b>	<b>8,103</b>	<b>8,570</b>	<b>8,275</b>	<b>5.8</b>	<b>(3.4)</b>	<b>16,846</b>	<b>15,527</b>	<b>8.5</b>
Raw Material	4,099	4,183	4,223	4,374	4,231	3.2	(3.3)	8,605	8,160	5.5
% of Sales	52.4%	51.5%	52.1%	51.0%	51.1%			51.1%	52.6%	
Employee Cost	1,312	1,310	1,466	1,406	1,384	5.5	(1.5)	2,790	2,594	7.6
% of Sales	16.8%	16.1%	18.1%	16.4%	16.7%			16.6%	16.7%	
Other Exp	1,088	1,443	1,169	1,104	1,155	6.1	4.6	2,259	2,244	0.7
% of Sales	13.9%	17.8%	14.4%	12.9%	14.0%			13.4%	14.5%	
Total Exp	6,499	6,936	6,858	6,883	6,770	4.2	(1.6)	13,653	12,998	5.0
<b>EBITDA</b>	<b>1,325</b>	<b>1,182</b>	<b>1,245</b>	<b>1,687</b>	<b>1,505</b>	<b>13.6</b>	<b>(10.8)</b>	<b>3,192</b>	<b>2,529</b>	<b>26.2</b>
<b>EBITDA Margin (%)</b>	<b>16.9%</b>	<b>14.6%</b>	<b>15.4%</b>	<b>19.7%</b>	<b>18.2%</b>			<b>18.9%</b>	<b>16.3%</b>	<b>2.66%</b>
Other Income	213	177	150	186	261	22.7	40.3	448	460	(2.6)
Interest	-	-	35	22	14			35	-	
Depreciation	39	39	43	85	87	127.0	2.5	173	77	125.5
PBT (before exceptional)	1,499	1,320	1,317	1,766	1,666	11.1	(5.7)	3,432	2,912	17.8
Exceptional Items	-	-	-	-	-			-	-	
PBT (Reported)	1,499	1,320	1,317	1,766	1,666	11.1	(5.7)	3,432	2,912	17.8
Tax	525	463	476	625	463			1,089	1,021	
Tax rate (%)	35.0%	35.1%	36.1%	35.4%	27.8%			31.7%	35.1%	
<b>Reported PAT</b>	<b>974</b>	<b>856</b>	<b>841</b>	<b>1,141</b>	<b>1,202</b>	<b>23.4</b>	<b>5.4</b>	<b>2,343</b>	<b>1,891</b>	<b>23.9</b>
Exceptional Items	-	-	-	-	-			-	-	
Adjusted PAT	974	856	841	1,141	1,202	23.4	5.4	2,343	1,891	23.9
PAT Margin (%)	12.4%	10.5%	10.4%	13.3%	14.5%			13.9%	12.2%	
<b>EPS (Rs)</b>	<b>110.2</b>	<b>96.9</b>	<b>95.2</b>	<b>129.1</b>	<b>136.0</b>	<b>23.4</b>	<b>5.4</b>	<b>265.1</b>	<b>213.9</b>	<b>23.9</b>

Source: Company, Antique

## Financials

### Profit and loss account (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
<b>Net Revenue</b>		<b>24,101</b>	<b>26,900</b>	<b>31,747</b>	<b>35,138</b>	<b>40,409</b>
Op. Expenses		21,242	23,264	26,714	28,837	32,818
<b>EBITDA</b>		<b>2,859</b>	<b>3,636</b>	<b>5,034</b>	<b>6,301</b>	<b>7,590</b>
Depreciation		164	152	159	350	350
<b>EBIT</b>		<b>2,695</b>	<b>3,484</b>	<b>4,875</b>	<b>5,951</b>	<b>7,240</b>
Other income		380	331	709	1,000	1,250
Interest Exp.		3	3	35	50	50
<b>Reported PBT</b>		<b>3,073</b>	<b>3,812</b>	<b>5,549</b>	<b>6,901</b>	<b>8,440</b>
Tax		1,379	1,315	1,961	1,967	2,321
<b>Reported PAT</b>		<b>1,695</b>	<b>2,497</b>	<b>3,588</b>	<b>4,934</b>	<b>6,119</b>
<b>Net Profit</b>		<b>1,695</b>	<b>2,497</b>	<b>3,588</b>	<b>4,934</b>	<b>6,119</b>
<b>Adjusted PAT</b>		<b>1,695</b>	<b>2,497</b>	<b>3,588</b>	<b>4,934</b>	<b>6,119</b>
<b>Adjusted EPS (INR)</b>		<b>191.7</b>	<b>282.5</b>	<b>405.9</b>	<b>558.2</b>	<b>692.2</b>

### Balance sheet (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Share capital		88	88	88	88	88
Reserves & Surplus		11,714	14,098	17,386	22,161	28,067
<b>Networth</b>		<b>11,803</b>	<b>14,187</b>	<b>17,475</b>	<b>22,249</b>	<b>28,156</b>
Net deferred Tax liabilities		(684)	(767)	(745)	(530)	(530)
<b>Capital Employed</b>		<b>11,118</b>	<b>13,420</b>	<b>16,729</b>	<b>21,719</b>	<b>27,626</b>
Gross Fixed Assets		1,091	1,259	1,387	1,587	1,787
Accumulated Depreciation		301	421	536	886	1,236
Capital work in progress		27	11	80	80	80
<b>Net Fixed Assets</b>		<b>817</b>	<b>849</b>	<b>932</b>	<b>782</b>	<b>632</b>
Investments		828	778	-	-	-
Current Investments		828	778	-	-	-
<b>Current Assets, Loans &amp; Adv.</b>		<b>17,185</b>	<b>21,926</b>	<b>27,229</b>	<b>32,785</b>	<b>40,423</b>
Inventory		969	798	1,051	1,230	1,414
Debtors		5,003	5,911	5,171	7,028	8,890
Cash & Bank balance		5,785	8,414	12,245	17,172	21,972
Loans & advances and others		5,428	6,802	8,763	7,356	8,146
<b>Current Liabilities &amp; Prov.</b>		<b>7,712</b>	<b>10,132</b>	<b>11,431</b>	<b>11,847</b>	<b>13,429</b>
Liabilities		6,876	9,127	10,125	10,541	12,123
Provisions		836	1,005	1,306	1,306	1,306
<b>Net Current Assets</b>		<b>9,473</b>	<b>11,793</b>	<b>15,798</b>	<b>20,938</b>	<b>26,994</b>
<b>Application of Funds</b>		<b>11,118</b>	<b>13,420</b>	<b>16,729</b>	<b>21,719</b>	<b>27,626</b>

### Per share data

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
No. of shares (m)		8.8	8.8	8.8	8.8	8.8
Diluted no. of shares (m)		8.8	8.8	8.8	8.8	8.8
BVPS (INR)		1,335.2	1,604.8	1,976.8	2,516.9	3,185.0
CEPS (INR)		210.2	299.7	423.9	597.8	731.8
DPS (INR)		10.0	10.0	12.0	15.0	20.0

Source: Company, Antique

### Cash flow statement (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
<b>PBT</b>		<b>3,073</b>	<b>3,812</b>	<b>5,549</b>	<b>6,901</b>	<b>8,440</b>
Depreciation & amortisation		164	152	159	350	350
Interest expense		3	3	35	50	50
(Inc)/Dec in working capital		453	310	(174)	(213)	(1,256)
Tax paid		(1,379)	(1,315)	(1,961)	(1,967)	(2,321)
Other operating Cash Flow		291	-	-	215	-
<b>CF from operating activities</b>		<b>2,604</b>	<b>2,962</b>	<b>3,608</b>	<b>5,336</b>	<b>5,263</b>
Inc/(Dec) in investments		862	(152)	(365)	(200)	(200)
<b>CF from investing activities</b>		<b>862</b>	<b>(152)</b>	<b>(365)</b>	<b>(200)</b>	<b>(200)</b>
Inc/(Dec) in share capital		(5)	(7)	(173)	-	-
Dividend Paid		(109)	(109)	(162)	(210)	(263)
Others		(1,284)	(64)	923	-	-
<b>CF from financing activities</b>		<b>(1,398)</b>	<b>(180)</b>	<b>588</b>	<b>(210)</b>	<b>(263)</b>
<b>Net cash flow</b>		<b>2,069</b>	<b>2,630</b>	<b>3,831</b>	<b>4,927</b>	<b>4,800</b>
Opening balance		3,716	5,784	8,414	12,245	17,172
<b>Closing balance</b>		<b>5,784</b>	<b>8,414</b>	<b>12,245</b>	<b>17,172</b>	<b>21,972</b>

### Growth indicators (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Revenue		8.5	11.6	18.0	10.7	15.0
EBITDA		31.2	27.2	38.4	25.2	20.5
Adj PAT		20.0	47.4	43.7	37.5	24.0
Adj EPS		20.0	47.4	43.7	37.5	24.0

### Valuation (x)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
P/E		148.2	100.5	70.0	50.9	41.0
P/BV		21.3	17.7	14.4	11.3	8.9
EV/EBITDA		86.2	67.2	48.1	37.9	30.8
EV/Sales		1,023.0	908.7	761.8	679.6	578.8
Dividend Yield (%)		0.0	0.0	0.0	0.1	0.1

### Financial ratios

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
RoE (%)		15.4	19.2	22.7	24.8	24.3
RoCE (%)		29.8	31.1	37.0	36.2	34.4
Asset/T.O (x)		3.0	2.8	2.8	2.4	2.1
EBIT/Interest (x)		1,183.0	1,362.5	160.4	139.0	169.8

### Margins (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
EBITDA Margin(%)		11.9	13.5	15.9	17.9	18.8
EBIT Margin		11.2	13.0	15.4	16.9	17.9
PAT Margin		7.0	9.3	11.3	14.0	15.1

Source: Company, Antique

<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR1,318
<b>Target Price</b>	: INR1,661
<b>Potential Return</b>	: 26%

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**Market data**

Sensex	:	39,832
Sector	:	NBFC
Market Cap (INRbn)	:	87.1
Market Cap (USDbn)	:	1.229
O/S Shares (m)	:	66.0
52-wk HI/LO (INR)	:	1900/1222
Avg Daily Vol ('000)	:	12
Bloomberg	:	SCUF IN

Source: Bloomberg

**Valuation**

	FY19	FY20e	FY21e
EPS (INR)	149.8	163.0	201.5
P/E (x)	8.8	8.1	6.5
BVPS (INR)	969	1105	1278
RoE (%)	16.6	15.7	16.9

Source: Bloomberg

**Returns (%)**

	1m	3m	6m	12m
Absolute	(1)	(9)	(22)	(17)
Relative	(4)	(14)	(24)	(31)

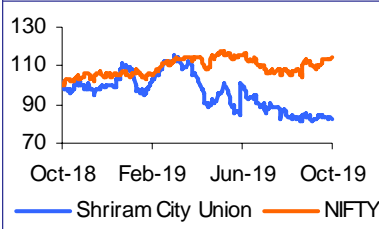
Source: Company, Antique

**Shareholding pattern**

Promoters	:	34%
Public	:	66%
Others	:	0%

Source: Bloomberg

**Price performance vs Nifty**



Source: Bloomberg

**2QFY20 RESULT REVIEW**

# Shriram City Union Finance

## Impacted by tight liquidity

**Quarterly performance**

- AUM growth YoY = 0.5%
- Disbursement growth YoY = -19.6%
- NII growth YoY = -6%
- PPP growth YoY = -6.3%
- PBT growth YoY = 1%
- PAT growth YoY = 19.3%
- NIM levels = 12.66% in Q2FY20 vs. 12.84% in Q1FY20
- GNPA Stage 3 = 8.7% in Q2FY20 vs. 8.9% in Q1FY20

**Quarterly results analysis:** After restarting its growth engine in Q4FY19, tight liquidity halted SCUF's growths engine and started taking toll on its overall performance. Weakness was seen across operating parameters like growth and margins. However the only silver lining was improving asset quality, this along with lower tax rate aided SCUF shore up its profit.

**Management commentary**

**On Liquidity:** Liquidity was tight for SCUF in Q2FY20. However, SCUF could raise INR22bn+ during the quarter of which INR10bn+ was used to retire short term debt like CPs and short term NCDs. The company has now changed its strategy of raising more long term instruments and has just INR5bn outstanding CPs which will mature in Mar20. However, from Oct lenders are more proactive and liquidity for SCUF is normalizing.

**On Business operation:** Owing partly to tight liquidity and tough economy, disbursements were impacted. SCUF took a strategic call of reserving resources for growing 2W business and consciously slowdown its SME business despite demand. However, weak demand in this quarter in 2W impacted operation, however seeing good traction in 2W finance from Oct month.

**On outlook:** With liquidity normalizing and majority of short term payment done management feels growth engine can start from Q3 but has toned down its growth target to 10% AUM for FY20. Operating leverage benefits and lower credit costs shall be key factors area.

**Our view - Navigating tough environment but low leverage still makes it a BUY**

Lower competition from weak NBFCs are offering good growth opportunities but tight liquidity is restraining SCUF from its growth ambition. As such, we lower our loan growth targets to 8% for FY20e. The heartening part is the stability around asset quality and credit costs despite tough environment. Low leverage, well capitalized balance sheet, and 15%+ RoEs make SCUF an attractive bet at 1x FY21e book. Maintain BUY with price target of 1,661 per share. Possible corporate action around merger with Shriram transport, Piramal's stake sale and entry of new strategic shareholder, etc remain key events to watch out for.

**Key financials**

Year-ended March 31	FY17	FY18	FY19	FY20e	FY21e
NII (Rs mn)	28,972	34,462	36,926	38,087	42,905
Net Income (Rs mn)	5,561	7,109	9,889	10,756	13,296
EPS (Rs)	84.3	107.8	149.8	163.0	201.5
BV (Rs)	762.6	842.1	968.5	1105.3	1277.9
P/E (x)	15.6	12.2	8.8	8.1	6.5
P/BV (x)	1.7	1.6	1.4	1.2	1.0
RoA (%)	2.6	2.8	3.5	3.5	3.9
RoE (%)	11.7	13.4	16.6	15.7	16.9

Source: Company, Antique

**Quarterly details**

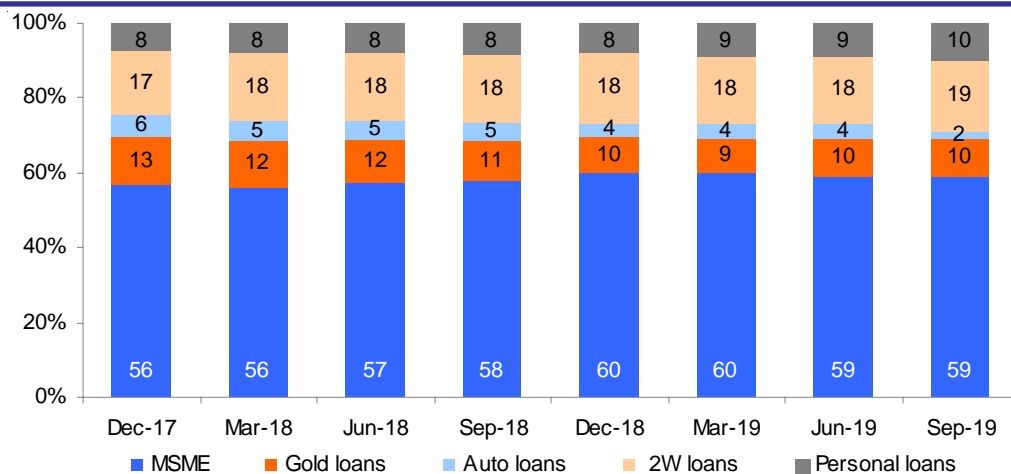
INR mn	Sep-19	Sep-18	% YoY	Jun-19	% QoQ
Net interest income	9,509	10,113	(6.0)	9,619	(1.1)
Pre-provisioning profits (PPoP)	5,744	6,129	(6.3)	5,774	(0.5)
Profit after tax (PAT)	2,975	2,493	19.3	2,532	17.5
NIM on AUM (%)	12.7	13.8	(113.6)	12.8	(17.7)
Cost to income (%)	39.7	39.4	20.6	40.0	(36.9)

INR mn	Sep-19	Sep-18	% YoY	Jun-19	% QoQ
AUM	297,220	295,880	0.5	303,520	(2.1)
MSME	174,330	170,050	2.5	179,200	(2.7)
2W loan	55,210	54,060	2.1	54,800	0.7
Loan against gold	29,290	32,950	(11.1)	30,550	(4.1)
Personal Loan	29,290	24,940	17.4	27,810	5.3
Auto loan	9,100	13,880	(34.4)	11,160	(18.5)

	Sep-19	Sep-18	% YoY	Jun-19	% QoQ
GNPA Stage 3 (%)	8.7	10.0	(132.0)	8.9	(20.0)
NNPL Stage 3 (%)	4.9	5.2	(28.0)	5.0	(12.0)
Coverage Stage 3 (%)	43.5	48.2	(465.4)	43.4	7.9
Coverage Stage 1&2 (%)	3.2	2.5	74.0	2.9	29.0

Source: Company, Antique

**Focus areas shall be in MSME and Personal loans via cross sell**



Source: Company, Antique

## Financials

### Profit and loss account (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Interest earned	44,316	51,313	56,725	63,069	70,407	
Interest expended	15,344	16,850	19,799	24,982	27,502	
<b>Net interest income</b>	<b>28,972</b>	<b>34,462</b>	<b>36,926</b>	<b>38,087</b>	<b>42,905</b>	
<b>Other income</b>	<b>29</b>	<b>544</b>	<b>1,121</b>	<b>1,154</b>	<b>1,189</b>	
Employee costs	5,503	7,063	8,385	8,721	9,157	
Depreciation	346	333	312	324	341	
Operating expenses	5,510	6,288	6,325	6,848	8,140	
<b>Pre-provisioning op profit</b>	<b>17,642</b>	<b>21,323</b>	<b>23,024</b>	<b>23,349</b>	<b>26,456</b>	
Provisions & contingencies	9,105	10,438	7,821	8,614	8,243	
<b>Profit before tax</b>	<b>8,536</b>	<b>10,885</b>	<b>15,203</b>	<b>14,734</b>	<b>18,214</b>	
Income taxes	2,976	3,775	5,315	3,978	4,918	
<b>Net profit</b>	<b>5,561</b>	<b>7,109</b>	<b>9,889</b>	<b>10,756</b>	<b>13,296</b>	

### Balance sheet (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Share Capital	659	660	660	660	660	660
Reserves and surplus	49,625	54,887	63,253	72,278	83,670	
Secured loans	1,38,220	1,48,508	1,51,107	1,73,419	1,98,773	
Unsecured loans	32,200	59,680	71,616	85,939	1,03,127	
Current liabilities & provisions	24,661	9,522	4,519	13,011	12,228	
<b>Total liabilities &amp; stockholders' equity</b>	<b>2,45,365</b>	<b>2,73,257</b>	<b>2,94,153</b>	<b>3,45,308</b>	<b>3,98,458</b>	
Net fixed assets	782	789	808	970	1,164	
Loans & advances	2,29,614	2,57,873	2,69,891	3,16,291	3,63,734	
Investments	7,145	7,355	8,662	10,395	12,474	
Cash and Balance	6,371	5,349	12,842	15,410	18,492	
Current assets	1,010	1,105	1,465	1,758	2,110	
Deferred tax assets	442	786	484	484	484	
<b>Total assets</b>	<b>2,45,365</b>	<b>2,73,257</b>	<b>2,94,153</b>	<b>3,45,308</b>	<b>3,98,458</b>	

### Growth (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Standalone disbursements	19.9	11.5	-3.4	15.0	25.0	
Standalone AUM	18.2	19.2	7.3	8.0	15.0	
Net Interest Income	18.5	19.0	7.1	3.1	12.6	
Pre provisioning operating profits	24.0	20.9	8.0	1.4	13.3	
PAT	5.0	27.9	39.1	8.8	23.6	
EPS	4.9	27.8	39.0	8.8	23.6	

Source: Company, Antique

### Yields, interest costs and spreads (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
NIM - AUM		13.6	13.6	12.9	12.4	12.5
Yield on loan assets		26.5	24.9	24.6	20.5	20.5
Average cost of funds		9.8	8.9	9.1	10.3	9.8

### Operating efficiencies

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Cost to income ratio (%)		39.2	39.1	39.5	40.5	40.0
Op.costs/avg AUM (%)		5.3	5.4	5.3	5.2	5.1

### Capital Structure

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Leverage (x)		4.9	4.9	4.6	4.7	4.7
CAR (%) - standalone		25.1	24.8	26.7	26.1	26.2
Tier 1 CAR (%) - standalone		21.1	20.8	22.7	22.1	22.2
Tier 2 CAR (%) - standalone		4.0	4.0	4.0	4.0	4.0

### Asset quality and provisioning

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
GNPL (standalone)		15,370	25,940	25,770	27,517	27,280
NNPL (standalone)		4,100	13,700	14,530	12,968	13,094
GNPL (% of standalone loans)		6.8	9.5	8.8	8.7	7.5
NNPL (% of standalone loans)		1.8	5.0	5.0	4.1	3.6
Coverage ratio (%)		73.3	47.2	43.6	52.9	52.0

### Return ratios & capital management

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
RoAA (%)		2.6	2.8	3.5	3.5	3.9
RoAE (%)		11.7	13.4	16.6	15.7	16.9

### Valuation Ratios

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
EPS (Rs)		84.3	107.8	149.8	163.0	201.5
Price to Earnings		15.6	12.2	8.8	8.1	6.5
BVPS (Rs)		763	842	969	1105	1278
Adjusted Book Value (Rs)		700	634	748	909	1079
Price to Book		1.7	1.6	1.4	1.2	1.0
Dividend yield (%)		1.1	1.4	1.8	1.8	1.8

Source: Company Antique



<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR2,040
<b>Target Price</b>	: INR2,390
<b>Potential Return</b>	: 17%

2QFY20 RESULT REVIEW

# Johnson Controls-Hitachi Air Conditioning India

## Subdued quarter

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**Market data**

Sensex	:	39,832
Sector	:	Electronics
Market Cap (INRbn)	:	55.5
Market Cap (USDbn)	:	0.783
O/S Shares (m)	:	27.2
52-wk HI/LO (INR)	:	2151/1470
Avg Daily Vol ('000)	:	6
Bloomberg	:	JCHAC IN

Source: Bloomberg

**Valuation**

	FY19	FY20e	FY21e
EPS (INR)	31.6	48.9	68.3
P/E	64.5	41.7	29.9
P/BV	9.0	7.6	6.1
EV/EBITDA	34.8	26.6	19.5
Dividend Yield (%)	0.2	0.2	0.2

Source: Bloomberg

**Returns (%)**

	1m	3m	6m	12m
Absolute	10	30	8	28
Relative	8	24	6	7

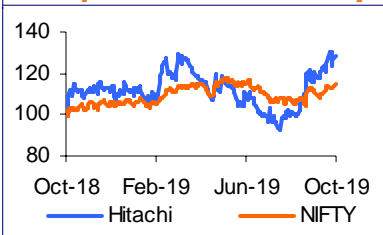
Source: Bloomberg

**Shareholding pattern**

Promoters	:	74%
Public	:	26%
Others	:	0%

Source: Bloomberg

**Price performance vs Nifty**



Source: Bloomberg

Indexed to 100

**Hitachi's 2QFY20 performance stood below expectations both at EBITDA and PAT level while revenue remained broadly in line with our expectations. Although the company posted a sequential gross margin expansion (+180bps QoQ), a high gross margin base in 2QFY19 saw a 180bps YoY decline leading to EBITDA margin coming in at 0.5% (down 100bps YoY). This also resulted into a loss of INR 64mn at PAT level. However, second quarter is typically a lean quarter for the entire Cooling Products industry and doesn't have a material impact our overall annual estimates. Hitachi is a play on structural demand for ACs in India (along with premiumization) and significant increase in inverter ACs, which has seen fast adoption in the country. The company recently indicated that it is targeting 10-15% revenue CAGR for the next three years and will be bidding for metro projects.. We maintain BUY on the stock with a target price of INR 2,390 based on 35x its FY21E earnings.**

**Key highlights from 2QFY20results**

- Revenue at INR 3.8bn grew 8.6% YoY, broadly in line with our estimate. While revenue growth has moderated from 20% YoY in 1QFY20, second quarter is typically a lean quarter for the AC business thereby having limited impact on the full year revenue.
- The company reported 100bps compression in EBITDA margin which came in at 0.5% as gross margin declined 180bps with good control over employee expenses (down 3%) and other expenses (up 10%). For 1HFY20, EBITDA margin stood at 8.5% expanding 70bps YoY.
- The company reported a loss before tax of INR 79mn as against INR 10mn PBT in 2QFY19. However, 1HFY20 saw PBT growth of 14.3% YoY.
- Also, the company reported a tax credit INR 72.9mn, thereby providing some support to the bottom-line as it reported a loss of INR 6.4mn (Antique estimate - INR 19mn profit) as against INR 4.9mn profit in 2QFY19.

**Valuation and outlook**

We expect Hitachi to improve its market share in air conditioners from the current 10-11% to closer to 20% over the next few years, given the undergoing structural changes in the room AC business. We expect a steady rise in the share of inverter ACs as India moves to higher efficiency parameters from Jan 2018. This augurs well for the company given it has highly-efficient ACs in its global portfolio. Further, we see Hitachi as possessing the potential to manufacture York-branded chillers in India. We maintain BUY rating with a target price of INR 2,390 based on 35x FY20E earnings.

### Quarterly financial highlights

Particulars (INR mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY20	1HFY19	YoY (%)
<b>Revenue</b>	<b>3,469</b>	<b>4,349</b>	<b>6,655</b>	<b>9,519</b>	<b>3,766</b>	<b>8.6</b>	<b>(60.4)</b>	<b>13,285</b>	<b>11,410</b>	<b>16.4</b>
Raw Material	2,172	2,916	4,150	6,297	2,424	11.6	(61.5)	8,721	7,374	18.3
% of Sales	62.6%	67.0%	62.4%	66.2%	64.4%			65.6%	64.6%	
Employee Cost	373	418	465	445	363	(2.7)	(18.4)	807	768	5.1
% of Sales	10.7%	9.6%	7.0%	4.7%	9.6%			6.1%	6.7%	
Other Exp	872	1,044	1,267	1,670	960	10.0	(42.5)	2,630	2,373	10.8
% of Sales	25.1%	24.0%	19.0%	17.5%	25.5%			19.8%	20.8%	
Total Exp	3,417	4,378	5,882	8,412	3,746	9.6	(55.5)	12,158	10,515	15.6
<b>EBITDA</b>	<b>52</b>	<b>(30)</b>	<b>773</b>	<b>1,107</b>	<b>20</b>	<b>(62.2)</b>	<b>(98.2)</b>	<b>1,127</b>	<b>895</b>	<b>25.9</b>
<b>EBITDA Margin (%)</b>	<b>1.5%</b>	<b>-0.7%</b>	<b>11.6%</b>	<b>11.6%</b>	<b>0.5%</b>			<b>8.5%</b>	<b>7.8%</b>	
Other Income	64	23	8	23	29	(54.3)	28.4	52	123	(57.3)
Interest	2	2	20	17	9	300.0	(49.1)	26	4	493.2
Depreciation	105	111	110	127	120	14.3	(6.0)	247	221	11.8
Exceptional Items										
PBT	10	(119)	651	985	(79)	NM	NM	906	792	14.3
Tax	5	(43)	228	349	(73)	NM	NM	276	280	(1.4)
Tax rate (%)	49.5%	36.4%	35.0%	35.5%	91.9%			30.5%	35.4%	
<b>Adjusted PAT</b>	<b>5</b>	<b>(76)</b>	<b>423</b>	<b>636</b>	<b>(6)</b>	<b>NM</b>	<b>NM</b>	<b>630</b>	<b>512</b>	<b>22.9</b>
Reported PAT	5	(76)	423	636	(6)	NM	NM	630	512	22.9
PAT Margin (%)	0.1%	-1.7%	6.4%	6.7%	-0.2%			4.7%	4.5%	
<b>EPS (Rs)</b>	<b>0.2</b>	<b>(2.8)</b>	<b>15.6</b>	<b>23.4</b>	<b>(0.2)</b>	<b>NM</b>	<b>NM</b>	<b>23.2</b>	<b>18.8</b>	<b>22.9</b>

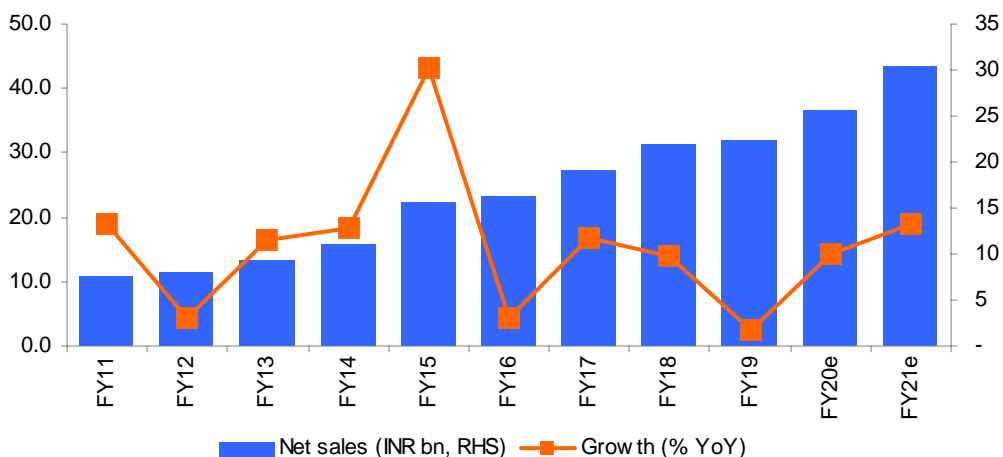
Source: Company, Antique

### Segmental Performance

Particulars (INR mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY20	1HFY19	YoY (%)
<b>Revenue</b>	<b>3,469</b>	<b>4,349</b>	<b>6,655</b>	<b>9,519</b>	<b>3,766</b>	<b>8.6</b>	<b>(60.4)</b>	<b>13,285</b>	<b>11,410</b>	<b>16.4</b>
Cooling products for comfort and commercial use	3,469	4,268	6,579	9,394	3,542	2.1	(62.3)	12,935	11,410	13.4
Design and development services	-	104	106	140	239			379	-	
Inter-segmental	-	23	30	14	15			29	-	
<b>EBIT</b>	<b>12</b>	<b>(119)</b>	<b>651</b>	<b>1,003</b>	<b>(71)</b>	<b>NM</b>	<b>NM</b>	<b>932</b>	<b>795</b>	<b>17.3</b>
Cooling products for comfort and commercial use	12	(133)	638	982	(108)	NM	NM	874	795	10.0
Design and development services	-	14	13	21	37			58	-	

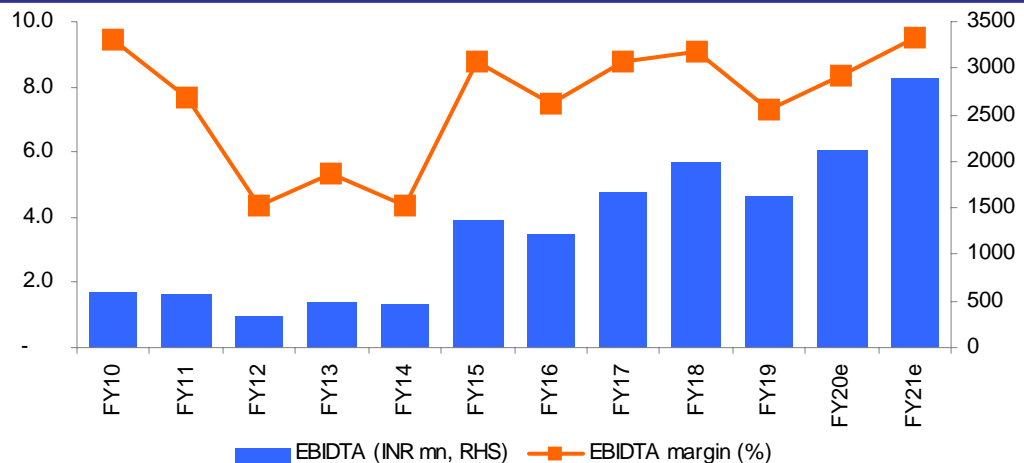
Source: Company, Antique

### Revenue and growth trend (INRbn)



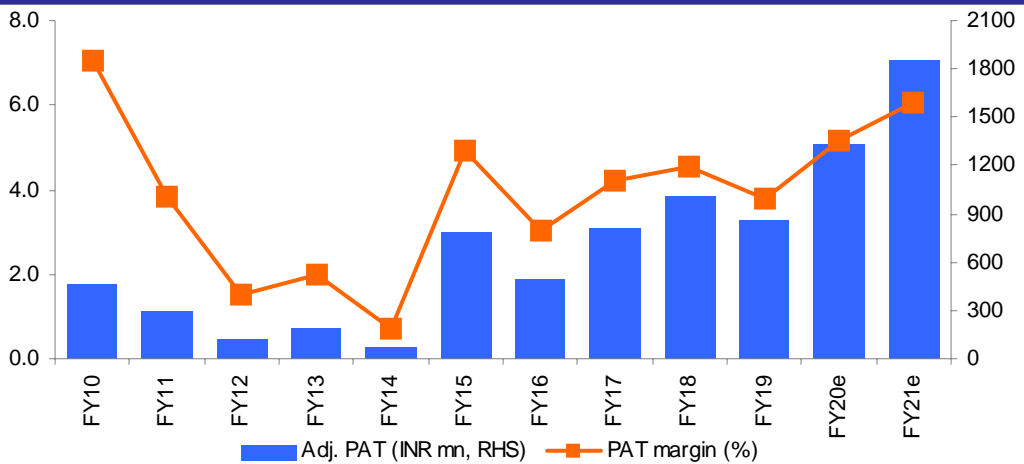
Source: Company, Antique

### EBITDA and EBITDA margin trend (INRmn)



Source: Company, Antique

### PAT and PAT margin trend (INRmn)



Source: Company, Antique



## Financials

### Profit and loss account (INRm)

Year ended 31 Mar	2017	2018	2019	2020e	2021e
<b>Net Revenue</b>	<b>19,173</b>	<b>21,854</b>	<b>22,413</b>	<b>25,628</b>	<b>30,502</b>
Op. Expenses	17,495	19,865	20,775	23,494	27,599
<b>EBITDA</b>	<b>1,678</b>	<b>1,988</b>	<b>1,638</b>	<b>2,134</b>	<b>2,903</b>
Depreciation	519	529	442	459	528
<b>EBIT</b>	<b>1,159</b>	<b>1,459</b>	<b>1,196</b>	<b>1,675</b>	<b>2,375</b>
Other income	68	74	154	155	160
Interest Exp.	44	20	27	53	53
<b>Reported PBT</b>	<b>1,183</b>	<b>1,513</b>	<b>1,324</b>	<b>1,777</b>	<b>2,482</b>
Tax	370	512	464	448	626
<b>Reported PAT</b>	<b>813</b>	<b>1,001</b>	<b>859</b>	<b>1,329</b>	<b>1,857</b>
<b>Net Profit</b>	<b>813</b>	<b>1,001</b>	<b>859</b>	<b>1,329</b>	<b>1,857</b>
<b>Adjusted PAT</b>	<b>813</b>	<b>1,001</b>	<b>859</b>	<b>1,329</b>	<b>1,857</b>
<b>Adjusted EPS (INR)</b>	<b>29.9</b>	<b>36.8</b>	<b>31.6</b>	<b>48.9</b>	<b>68.3</b>

### Balance sheet (INRm)

Year ended 31 Mar	2017	2018	2019	2020e	2021e
Share Capital	272	272	272	272	272
Reserves & Surplus	4,130	5,080	5,858	7,061	8,791
<b>Networth</b>	<b>4,402</b>	<b>5,352</b>	<b>6,130</b>	<b>7,332</b>	<b>9,062</b>
Debt	595	127	1,896	1,906	1,916
Net deferred Tax liabilities	(81)	(139)	(166)	(166)	(166)
<b>Capital Employed</b>	<b>4,916</b>	<b>5,340</b>	<b>7,860</b>	<b>9,073</b>	<b>10,813</b>
Gross Fixed Assets	2,751	3,042	3,571	4,072	4,725
Accumulated Depreciation	408	820	1,262	1,721	2,249
Capital work in progress	15	16	941	32	32
<b>Net Fixed Assets</b>	<b>2,603</b>	<b>2,446</b>	<b>3,251</b>	<b>2,383</b>	<b>2,508</b>
<b>Current Assets, Loans &amp; Adv.</b>	<b>8,521</b>	<b>9,976</b>	<b>12,261</b>	<b>14,428</b>	<b>17,185</b>
Inventory	4,600	4,421	5,555	6,670	7,939
Debtors	2,831	4,143	4,771	5,758	6,936
Cash & Bank balance	236	358	299	655	865
Loans & advances and others	855	1,055	1,636	1,345	1,445
<b>Current Liabilities &amp; Prov.</b>	<b>6,208</b>	<b>7,082</b>	<b>7,652</b>	<b>7,738</b>	<b>8,880</b>
Liabilities	6,063	6,455	7,002	7,553	8,688
Provisions	145	628	650	185	192
<b>Net Current Assets</b>	<b>2,313</b>	<b>2,894</b>	<b>4,609</b>	<b>6,690</b>	<b>8,305</b>
<b>Application of Funds</b>	<b>4,916</b>	<b>5,340</b>	<b>7,860</b>	<b>9,073</b>	<b>10,813</b>

### Per share data

Year ended 31 Mar	2017	2018	2019	2020e	2021e
No. of shares (m)	27.2	27.2	27.2	27.2	27.2
Diluted no. of shares (m)	27.2	27.2	27.2	27.2	27.2
BVPS (INR)	161.9	196.8	225.4	269.7	333.3
CEPS (INR)	49.0	56.3	47.8	65.8	87.7
DPS (INR)	2.0	3.5	4.0	4.0	4.0

Source: Company, Antique

### Cash flow statement (INRm)

Year ended 31 Mar	2017	2018	2019	2020e	2021e
<b>PBT</b>	<b>1,183</b>	<b>1,513</b>	<b>1,324</b>	<b>1,777</b>	<b>2,482</b>
Depreciation & amortisation	519	529	442	459	528
Interest expense	44	20	27	53	53
(Inc)/Dec in working capital	(112)	(581)	(1,715)	(2,081)	(1,615)
Tax paid	370	512	464	448	626
Less: Interest/Div. Income Recd.	68	74	154	155	160
<b>CF from operating activities</b>	<b>2,071</b>	<b>2,068</b>	<b>696</b>	<b>811</b>	<b>2,234</b>
Capital expenditure	(59)	(157)	805	(868)	125
Add: Interest/Div. Income Recd.	68	74	154	155	160
<b>CF from investing activities</b>	<b>9</b>	<b>(83)</b>	<b>960</b>	<b>(713)</b>	<b>285</b>
Inc/(Dec) in debt	(733)	(469)	1,770	10	10
Dividend Paid	(63)	(111)	(127)	(127)	(127)
Others	(1,090)	(1,283)	(3,358)	1,031	(2,762)
<b>CF from financing activities</b>	<b>(1,886)</b>	<b>(1,863)</b>	<b>(1,715)</b>	<b>915</b>	<b>(2,879)</b>
<b>Net cash flow</b>	<b>194</b>	<b>122</b>	<b>(60)</b>	<b>1,012</b>	<b>(359)</b>
Opening balance	42	236	358	299	655
<b>Closing balance</b>	<b>236</b>	<b>358</b>	<b>298</b>	<b>1,310</b>	<b>296</b>

### Growth indicators (%)

Year ended 31 Mar	2017	2018	2019	2020e	2021e
Revenue	16.9	14.0	2.6	14.3	19.0
EBITDA	36.7	18.5	(17.6)	30.3	36.0
Adj PAT	62.7	23.1	(14.2)	54.7	39.7
Adj EPS	62.7	23.1	(14.2)	54.7	39.7

### Valuation (x)

Year ended 31 Mar	2017	2018	2019	2020e	2021e
P/E	68.2	55.4	64.5	41.7	29.9
P/BV	12.6	10.4	9.0	7.6	6.1
EV/EBITDA	33.3	27.8	34.8	26.6	19.5
EV/Sales	2.9	2.5	2.5	2.2	1.9
Dividend Yield (%)	0.1	0.2	0.2	0.2	0.2

### Financial ratios

Year ended 31 Mar	2017	2018	2019	2020e	2021e
RoE (%)	20.4	20.5	15.0	19.7	22.6
RoCE (%)	25.1	29.9	20.5	21.6	25.5
Asset/T.O (x)	3.9	4.3	3.4	3.0	3.1
Net Debt/Equity (x)	0.1	(0.0)	0.3	0.2	0.1
EBIT/Interest (x)	27.9	77.4	50.2	34.7	47.9

### Margins (%)

Year ended 31 Mar	2017	2018	2019	2020e	2021e
EBITDA Margin	8.7	9.1	7.3	8.3	9.5
EBIT Margin	6.0	6.7	5.3	6.5	7.8
PAT Margin	4.2	4.6	3.8	5.2	6.1

Source: Company Antique

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR294
Target Price	: INR380
Potential Return	: 27%

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Market data	
Sensex	: 39,832
Sector	: Packaging
Market Cap (INRbn)	: 8.1
Market Cap (USDbn)	: 0.114
O/S Shares (m)	: 27.7
52-wk HI/LO (INR)	: 322/202
Avg Daily Vol ('000)	: 26
Bloomberg	: MTEP IN

Source: Bloomberg

	FY19	FY20e	FY21e
EPS (INR)	11.5	14.6	19.1
P/E	25.5	20.1	15.4
P/BV	4.2	3.7	3.2
EV/EBITDA	13.0	11.2	9.1
Dividend Yield (%)	1.4	1.5	1.9

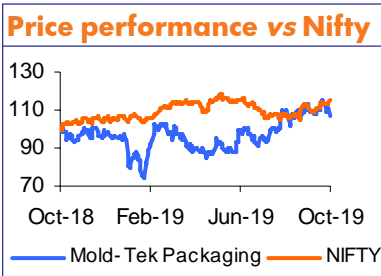
Source: Company, Antique

Returns (%)				
	1m	3m	6m	12m
Absolute	(4)	12	21	7
Relative	(7)	6	19	(11)

Source: Bloomberg

Shareholding pattern	
Promoters	: 36%
Public	: 64%
Others	: 0%

Source: Company, Antique



Source: Bloomberg, Indexed to 100

2QFY20 RESULT REVIEW

# Mold-Tek Packaging

## Steady quarter; outlook intact

Mold Tek Packaging (MTEP) reported strong performance during QFY20. It reported revenue/EBITDA/PAT growth of 14%/23%/44% YoY respectively led by increasing traction in paints, edible oil/ghee and Food & FMCG (F&F) segment. Key takeaways are: (1) overall volume up 14% YoY, India's volume up 17% YoY (2) F&F segment grew 40% YoY (3) F&F segment to achieve revenue of INR1.25bn in FY20 vs INR0.85bn in FY19; (4) Mysore and Vizag plant achieved 50% utilization and (5) north facility in Kanpur to be set up by FY20 end. Management maintained volume growth guidance of 15-20% in FY20. We believe MTEP is at an inflection point from where multiple factors are likely to trigger growth. We expect the company to report revenue/PAT CAGR of 16%/27% respectively over FY19-FY21. In our view, the stock has rerating potential with multiple growth levers in place, margins set to improve, strong RoCE/RoE, and a strong technical team. Maintain BUY with a target price of INR380 at 20x FY21 EPS.

### F&F revenue perked up 40%; paints surged 33% YoY

MTEP reported revenue growth of 14% YoY on the back of 14% volume (India's volume up 17% YoY) growth YoY, led by strong traction in paints, edible oil/ghee and Food & FMCG (F&F) segment. Paints and F&F segments grew 33% and 55% YoY in volume terms, respectively. However, lubricants volume declined 23% YoY on account of subdued demand and extended monsoon season. Mysore and Vizag plants contributed INR160mn of revenue in 2QFY20 (1H, INR245mn). Both the plants run at 50% capacity utilization in 2QFY20 versus 25-30% in 1QFY20. F&F segment contributed 23% of total sales in 2QFY20.

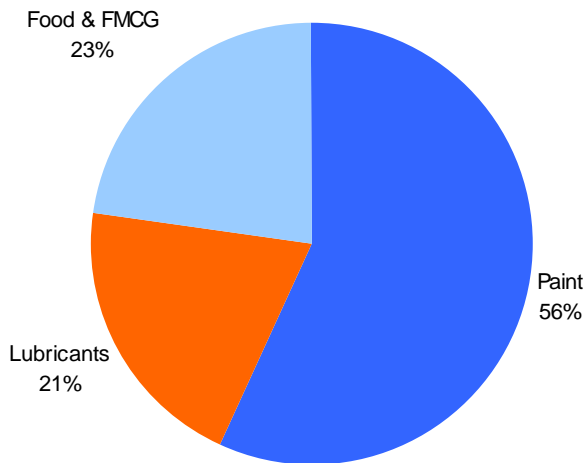
### Stable EBITDA/kg; likely to inch up in coming quarters

Consolidated EBITDA margin surged 130bps YoY to 17.8%. Consolidated EBITDA/kg has shot up to INR32.8 as against INR30.6 in 2QFY19. It was primarily on account of a) higher share of F&F segment and b) closure of UAE facility. The company has opted for new tax during the quarter. Hence, it led lower tax rate of 20% vs 37% in corresponding quarter of previous year. PAT grew 44% YoY to INR105mn. **Management believes that EBITDA/kg is likely to expand to INR34-34.5 in FY20 (FY19 - INR33/kg).**

### Key highlights

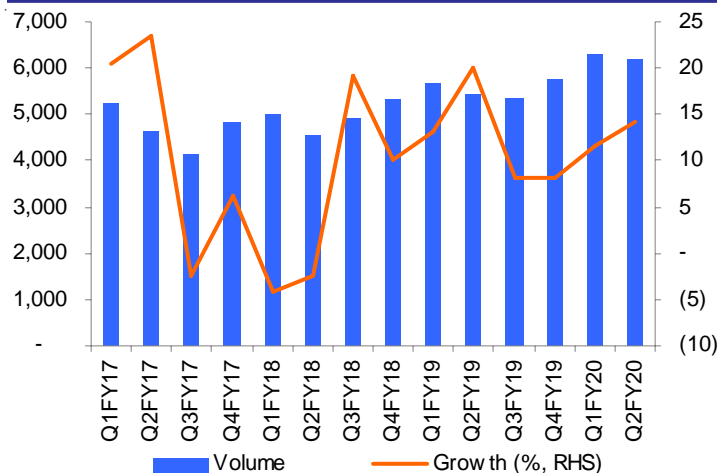
- **Revenue share of IML:** increased to 65% in 2QFY20 from 59% in 2QFY19 in volume term. Further, it has inched up from 53% in 2QFY19 to 61% in value term 2QFY20 .
- **Capex** - guided for capex of INR350mn in FY20 (INR720mn in FY19).
- **Tax rate:** MTEP has opted for new tax regime. Hence, it has guided for tax rate at 25% in FY20.
- **Guidance:** expects volume growth guidance of 15-20% YoY in FY20.
- **Hosur plant:** The company has strategically shifted its Hosur, Tamilnadu plant to other existing plants to improve cost efficiency. It expects cost saving to the tune of INR8-10mn/PA.
- **Volume:** achieved volume of 6200MT in 2QFY20 versus 5274MT in 2QFY19 on standalone basis.
- **Mondelez:** continue to witness revenue decline of 20-25% YoY in 2Q. It expects to close revenue of INR250-300 in FY20 (FY19, INR260mn) from Mondelez.
- **New customer additions:** HUL (second product), 3-4 customers in edible oil, Emami, HAtsun Agro.

**Standalone segment-wise revenue split in 2QFY20**



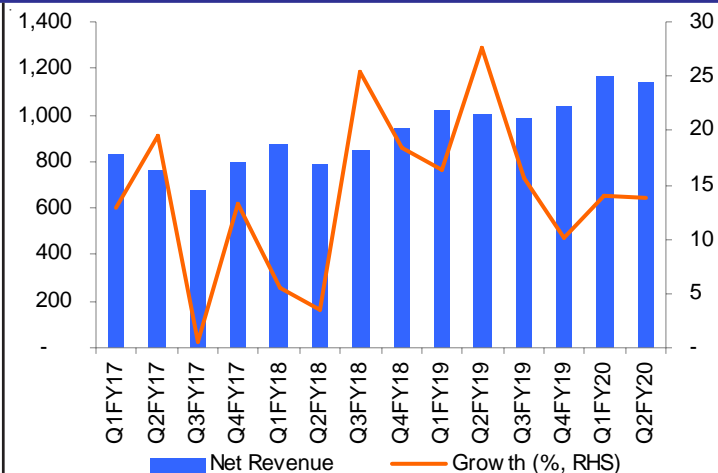
Source: Company, Antique

**Quarterly volume (MT) and growth trend**



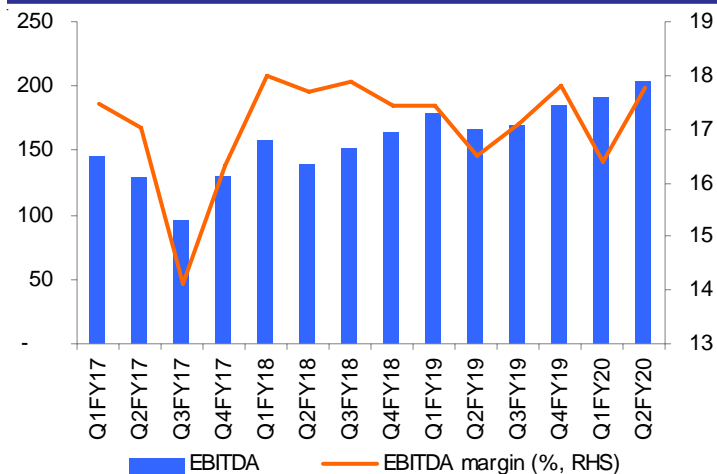
Source: Company, Antique

**Quarterly revenue (INR mn) and growth trend**



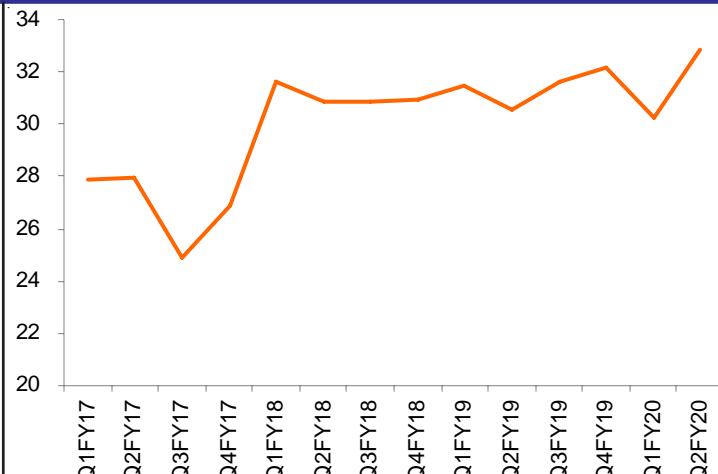
Source: Company, Antique

**Quarterly EBITDA (INR mn) and EBITDA margin**



Source: Company, Antique

**Quarterly EBITDA/kg trend**



Source: Company, Antique

## Financial snapshot

Year to March	Q2FY20	Q2FY19	%Change	Q4FY19	%Change	2HFY20	2HFY19	%Change	FY19	FY20E	FY21E
<b>Revenues</b>	<b>1,144</b>	<b>1,005</b>	<b>13.8</b>	<b>1,166</b>	<b>(1.9)</b>	<b>2,310</b>	<b>2,028</b>	<b>13.9</b>	<b>4,057</b>	<b>4,739</b>	<b>5,421</b>
Raw material	672	614	9.5	711	(5.4)	1,383	1,235	12.0	2,449	2,850	3,254
Staff costs	130	109	20.1	126	3.2	257	212	21.0	433	521	569
Others	137	116	18.1	138	(0.3)	275	237	16.3	472	550	607
Total expenditure	940	839	12.1	975	(3.6)	1,915	1,684	13.8	3,354	3,921	4,430
<b>EBITDA</b>	<b>203</b>	<b>166</b>	<b>22.6</b>	<b>191</b>	<b>6.5</b>	<b>395</b>	<b>344</b>	<b>14.6</b>	<b>703</b>	<b>817</b>	<b>991</b>
Depreciation	48	38	25.0	46	2.9	94	75	24.6	161	204	224
<b>EBIT</b>	<b>156</b>	<b>128</b>	<b>21.9</b>	<b>145</b>	<b>7.6</b>	<b>300</b>	<b>269</b>	<b>11.8</b>	<b>542</b>	<b>614</b>	<b>767</b>
Interest	26	17	51.9	25	4.1	52	34	53.4	76	85	73
Other income	2	5	(64.6)	9	(80.1)	11	9	15.8	11	12	14
<b>PBT</b>	<b>131</b>	<b>116</b>	<b>13.5</b>	<b>128</b>	<b>2.1</b>	<b>260</b>	<b>244</b>	<b>6.2</b>	<b>478</b>	<b>542</b>	<b>708</b>
Tax	26	43	(38.5)	35	(24.0)	61	90	(31.9)	159	136	178
<b>Adjusted Profit</b>	<b>105</b>	<b>73</b>	<b>44.4</b>	<b>94</b>	<b>11.8</b>	<b>198</b>	<b>155</b>	<b>28.4</b>	<b>319</b>	<b>405</b>	<b>529</b>
Equity capital (FV INR 5)	138	138		138		138	138		138	138	138
No. of Diluted shares o/s (mn)	28	28		28		28	28		28	28	28
Adjusted Diluted EPS	3.8	2.6	44.4	3.4	11.8	7.2	5.6	28.4	11.5	14.6	19.1
<b>As % of net revenues</b>											
Raw material	58.8	61.1		61.0		59.9	60.9		60.4	60.2	60.0
Staff expenses	11.4	10.8		10.8		11.1	10.5		10.7	11.0	10.5
Other expenses	12.0	11.6		11.8		11.9	11.7		11.6	11.6	11.2
EBITDA	17.8	16.5		16.4		17.1	17.0		17.3	17.2	18.3
Net profit	9.2	7.2		8.0		8.6	7.6		7.9	8.5	9.8

Source: Company, Antique

## Financials

### Profit and loss account (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
<b>Net Revenue</b>		<b>3,014</b>	<b>3,468</b>	<b>4,057</b>	<b>4,739</b>	<b>5,421</b>
Op. Expenses		2,510	2,853	3,354	3,921	4,430
<b>EBITDA</b>		<b>504</b>	<b>615</b>	<b>703</b>	<b>817</b>	<b>991</b>
Depreciation		103	132	161	204	224
<b>EBIT</b>		<b>401</b>	<b>484</b>	<b>542</b>	<b>614</b>	<b>767</b>
Other income		8	10	11	12	14
Interest Exp.		24	46	76	85	73
<b>Reported PBT</b>		<b>385</b>	<b>447</b>	<b>478</b>	<b>542</b>	<b>708</b>
Tax		143	169	159	136	178
<b>Reported PAT</b>		<b>242</b>	<b>278</b>	<b>319</b>	<b>405</b>	<b>529</b>
<b>Net Profit</b>		<b>242</b>	<b>278</b>	<b>319</b>	<b>405</b>	<b>529</b>
<b>Adjusted PAT</b>		<b>242</b>	<b>278</b>	<b>319</b>	<b>405</b>	<b>529</b>
<b>Adjusted EPS (INR)</b>		<b>8.7</b>	<b>10.1</b>	<b>11.5</b>	<b>14.6</b>	<b>19.1</b>

### Balance sheet (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Share Capital		138	138	138	138	138
Reserves & Surplus		1,388	1,599	1,778	2,033	2,379
<b>Networth</b>		<b>1,527</b>	<b>1,738</b>	<b>1,917</b>	<b>2,172</b>	<b>2,518</b>
Debt		505	952	1,029	1,129	979
Net deferred Tax liabilities		75	104	131	131	131
<b>Capital Employed</b>		<b>2,107</b>	<b>2,794</b>	<b>3,076</b>	<b>3,431</b>	<b>3,627</b>
Gross Fixed Assets		1,185	1,558	2,248	2,548	2,798
Accumulated Depreciation		101	230	370	574	797
Capital work in progress		97	149	160	160	160
<b>Net Fixed Assets</b>		<b>1,181</b>	<b>1,476</b>	<b>2,039</b>	<b>2,135</b>	<b>2,161</b>
Investments		113	104	97	97	97
Non Current Investments		113	104	97	97	97
<b>Current Assets, Loans &amp; Adv.</b>		<b>1,167</b>	<b>1,558</b>	<b>1,415</b>	<b>1,729</b>	<b>1,961</b>
Inventory		367	523	459	530	610
Debtors		615	845	704	843	974
Cash & Bank balance		9	10	9	88	82
Loans & advances and others		176	181	243	267	294
<b>Current Liabilities &amp; Prov.</b>		<b>354</b>	<b>345</b>	<b>477</b>	<b>532</b>	<b>594</b>
Liabilities		166	222	205	233	265
Provisions		188	122	272	299	329
<b>Net Current Assets</b>		<b>813</b>	<b>1,214</b>	<b>939</b>	<b>1,197</b>	<b>1,367</b>
<b>Application of Funds</b>		<b>2,107</b>	<b>2,794</b>	<b>3,074</b>	<b>3,429</b>	<b>3,626</b>

### Per share data

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
No. of shares (m)		28	28	28	28	28
Diluted no. of shares (m)		28	28	28	28	28
BVPS (INR)		55.1	62.8	69.2	78.4	90.9
CEPS (INR)		12.5	14.8	17.3	22.0	27.2
DPS (INR)		3.6	1.6	4.0	4.5	5.5

Source: Company, Antique

### Cash flow statement (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
<b>PBT</b>		<b>385</b>	<b>447</b>	<b>478</b>	<b>529</b>	<b>694</b>
Depreciation & amortisation		106	135	164	204	224
Interest expense		24	46	76	-	-
(Inc)/Dec in working capital		(100)	(411)	220	(180)	(176)
Tax paid		(136)	(139)	(136)	(136)	(178)
Other operating Cash Flow		(52)	(10)	(3)	12	14
<b>CF from operating activities</b>		<b>227</b>	<b>68</b>	<b>800</b>	<b>429</b>	<b>577</b>
Capital expenditure		(393)	(431)	(728)	(300)	(250)
Inc/(Dec) in investments		50	11	7	-	-
<b>CF from investing activities</b>		<b>(343)</b>	<b>(420)</b>	<b>(721)</b>	<b>(300)</b>	<b>(250)</b>
Inc/(Dec) in debt		247	452	130	100	(150)
Dividend Paid		(108)	(53)	(134)	(150)	(183)
Others		(17)	(45)	(76)	-	-
<b>CF from financing activities</b>		<b>121</b>	<b>353</b>	<b>(79)</b>	<b>(50)</b>	<b>(333)</b>
<b>Net cash flow</b>		<b>5</b>	<b>1</b>	<b>(0)</b>	<b>79</b>	<b>(6)</b>
Opening balance		10	9	10	9	88
<b>Closing balance</b>		<b>15</b>	<b>10</b>	<b>9</b>	<b>88</b>	<b>82</b>

### Growth indicators (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Revenue(%)		9.3	15.1	17.0	16.8	14.4
EBITDA(%)		10.0	22.1	14.3	16.2	21.2
Adj PAT(%)		0.3	15.2	14.7	26.9	30.7
Adj EPS(%)		0.3	15.2	14.7	26.9	30.7

### Valuation (x)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
P/E		33.7	29.2	25.5	20.1	15.4
P/BV		5.3	4.7	4.2	3.7	3.2
EV/EBITDA		17.1	14.8	13.0	11.2	9.1
EV/Sales		2.9	2.6	2.3	1.9	1.7
Dividend Yield (%)		1.2	0.5	1.4	1.5	1.9

### Financial ratios

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
RoE (%)		16.3	17.1	17.5	19.8	22.6
RoCE (%)		13.7	12.9	13.0	14.9	17.1
Asset/T.O (x)		1.7	1.5	1.4	1.5	1.6
Net Debt/Equity (x)		0.3	0.5	0.5	0.5	0.4
EBIT/Interest (x)		16.8	10.7	7.3	7.4	10.6

### Margins (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
EBITDA Margin(%)		16.7	17.7	17.3	17.2	18.3
EBIT Margin(%)		13.3	14.0	13.4	13.0	14.2
PAT Margin(%)		8.0	8.0	7.8	8.5	9.7

Source: Company Antique

<b>Current Reco</b>	: HOLD
<b>Previous Reco</b>	: HOLD
<b>CMP</b>	: INR523
<b>Target Price</b>	: INR560
<b>Potential Return</b>	: 7%

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**Market data**

Sensex	:	39,832
Sector	:	Oil & Gas
Market Cap (INRbn)	:	1,134.3
Market Cap (USDbn)	:	16.012
O/S Shares (m)	:	2,169.2
52-wk HI/LO (INR)	:	548/264
Avg Daily Vol ('000)	:	10,023
Bloomberg	:	BPCL IN

Source: Bloomberg

**Valuation**

	<b>FY19</b>	<b>FY20e</b>	<b>FY21e</b>
EPS (INR)	32.9	45.8	47.2
P/E	15.9	11.4	11.1
P/BV	2.8	2.5	2.2
EV/EBITDA	11.32	10.06	9.72
Dividend Yield (%)	3.6	4.8	5.0

Source: Bloomberg

**Returns (%)**

	<b>1m</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
Absolute	11	53	41	89
Relative	8	45	38	58

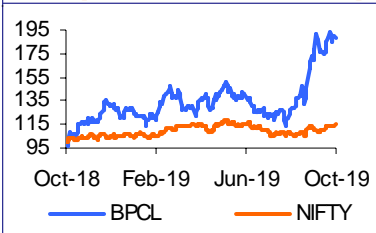
Source: Company, Antique

**Shareholding pattern**

Promoters	:	55%
Public	:	45%
Others	:	0%

Source: Bloomberg

**Price performance vs Nifty**



Source: Bloomberg, Indeed to 100

**COMPANY UPDATE**

# Bharat Petroleum Corporation

## Plausible divestment drives investor interest

### Ascertaining the value a challenging task

Right at the onset, we admit that ascertaining an appropriate value for a diversified refining and marketing major like BPCL, which operates in a sensitive and regulated environment, is a complicated exercise. The company's business interests are spread over Upstream (domestic and global), Refining (owned and JV), Pipeline & Marketing, and strategic investments in city gas distribution (CGD) and other entities.

Therefore, what we have attempted to attain is a rather simplified understanding of an "appropriate" value. Our assessment is based on historical and peer trading multiples and may or may not reflect the true strategic value. However, this does bring up the question whether the government divesting its stake in the company will be seen as an opportunity to acquire a strategic asset by investors or not. In our opinion, the answer to that could lie in evaluating the investment as a sum-of-the-parts (SOTP) one rather than as a whole.

### Marketing division and pipelines do provide a strategic value

The consumption of petroleum products in India is estimated to double (to ~9mbpd) over the next two decades, with annual growth in consumption initially coming at par with China's and, eventually, surpassing it. Therefore, an investment in BPCL becomes a vehicle for ready market access with well-established marketing infrastructure (pipelines, depots, and retail outlets), customer base, manpower (employees and distributors suppliers) and customer relationships (industrial customers, loyalty fleet customers, etc.), which otherwise would take years to build and achieve.

### Could refineries be considered as strategic investments though?

In light of the fact that the current refining balance (global and domestic) is in oversupply, a vintage refinery could hardly be termed as a strategic investment and, therefore, is unlikely to be a candidate for an associated premium in terms of valuation. BPCL's Mumbai and Kochi refineries, though continually upgraded, are still vintage ones with far lower complexity and refinery margins than the newer peers globally. The ample supply of refined products vis-a-vis demand (call on refining), therefore, makes the owning of refining assets superfluous and potentially return dilutive.

### Upstream asset fraught with delays and macro challenges

BPCL's prolific upstream portfolio, once a differentiating factor (from other OMCs), is saddled with delays and a challenging macro (low crude and LNG prices). Other than Vankor, Tass and Lower Zakum, which are producing assets, the other key assets continue to be under appraisal/development. In addition, the low crude oil and LNG price environment has only made the economics of underdevelopment projects more challenging. BPRL (a 100% upstream subsidiary), therefore, continues to be unprofitable, having made a loss of INR 997mn (pre-tax) in FY19.

### Transfer of management control could unlock financial and operational efficiency

The sale of Gol's ~54% stake and the eventual transfer of control to the investing entity, though fraught with economic, legal, political, and regulatory challenges, does provide an opportunity for value unlocking, in our opinion. The operational and financial decision and capex programs undertaken by BPCL today might or might not be driven purely by the ROI objective. However, the new management would have little incentive to indulge in such expenditures. We, therefore, do expect operational and financial efficiencies post the divestment and change in the controlling entity. It nevertheless does put a question mark on decisions that are either being implemented or are a part of the MoUs signed by the company.

### Possibility of open offer exists; but so also of various ways of structuring the same

A huge part of investor interest in the stock is possibly driven by the expectation of an 'open offer' over and above the divestment of government's stake. To our understanding, given the current market capitalisation, the government's stake itself amounts to INR 610bn (USD 9bn), which means a significant investment in itself. If an open offer follows, it would put an additional burden on the investor. Therefore, various possibilities of structuring the transaction exists, for example GoI could be partial direct sale of shares and remaining as a part of 'open offer' thereby reducing the financial burden on investing entity or the open offer could entirely be waived off as was the case in ONGC-HPCL transaction.

### Valuation and outlook

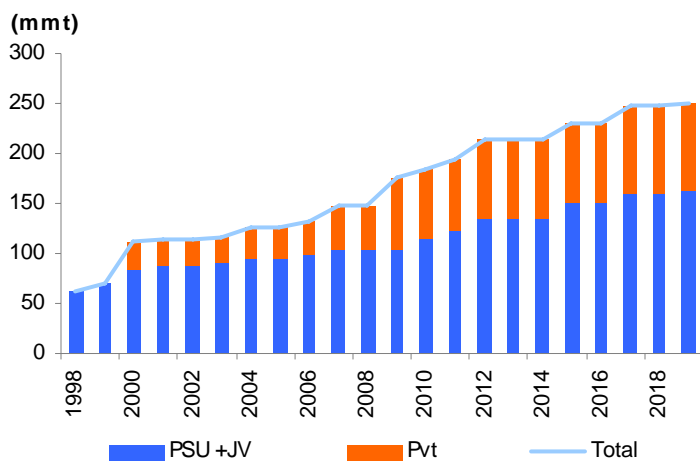
To sum up the argument, in our opinion, it is unlikely that an investor would readily see divestment by GoI as an opportunity for strategic acquisition as far as the company (as a whole) is concerned. While the marketing business does hold significant value, exposure to refining and upstream does not appear that attractive. Therefore, an assessment of the company's intrinsic value is subject to a considerable due diligence and negotiation. In addition, given the expected size of the investment, there is likelihood that a consortium of investors might make the bid, instead of a single bidder. Our SOTP estimates ascribe a value of INR 560/sh to BPCL and trading at a PE of 12x FY21 (SA) & a P/BV of 2.2 x FY21 (SA), we find the stock fairly valued as far as a financial investor is concerned. However, having said that we also believe that for a strategic investor, considerable value can be unlocked through rationalising 'non-core' investments, efficient use of capital and exploiting operating synergies.

## Refining

### Overcapacity creates overhang

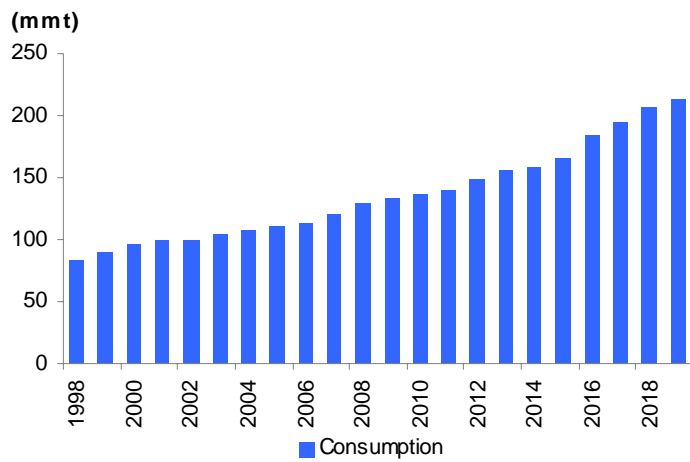
The Indian refining industry has certainly come of age, with total installed capacity far exceeding domestic demand. The country's refining capacity has steadily increased from just 62mmt in 1998 to 248mmt (6.8% CAGR) at present. In the same time frame, the domestic petroleum products consumption has grown from 84.3mmt to 211.6mmt (4.5% CAGR), thereby establishing India as a key exporter of refined petroleum products.

**Refining capacity growth in India at 6.8% CAGR (1998-2019)**



Source: Antique, Company

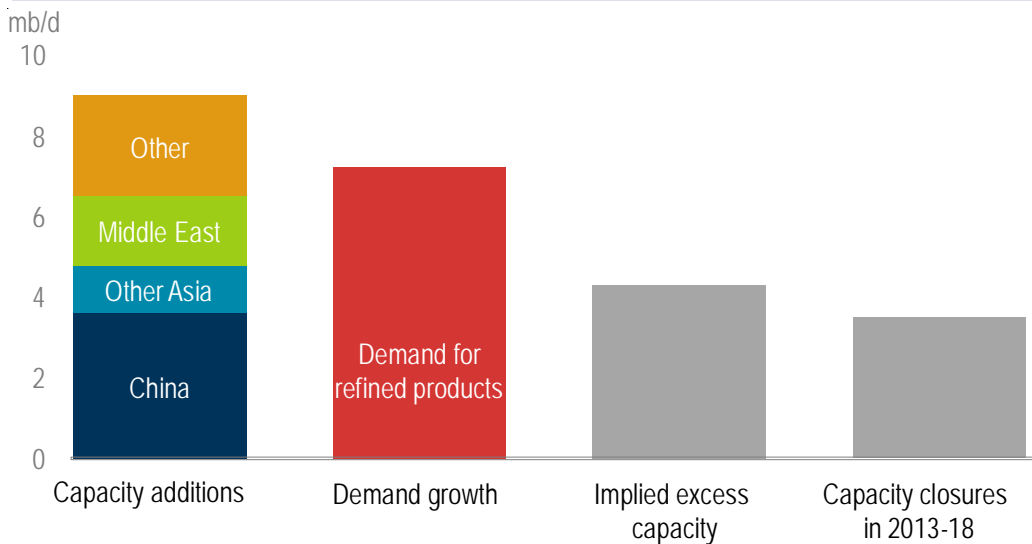
**Whereas growth of 4.5% CAGR in domestic petroleum consumption lacks growth in refining capacity**



Source: Antique, Company

Despite India having a refining overcapacity, blueprints for new large refineries are being laid out by both private and PSU refiners. For instance, RIL is looking to expand its Jamnagar refining capacity and HPCL is already in the process of augmenting the capacity at its Vizag refinery; in addition, the government has also proposed a plan to set up a 60mmt/a mega refinery complex in Maharashtra.

### Global capacity growth to 2024 far exceed refined products demand growth



Source: IEA, Antique

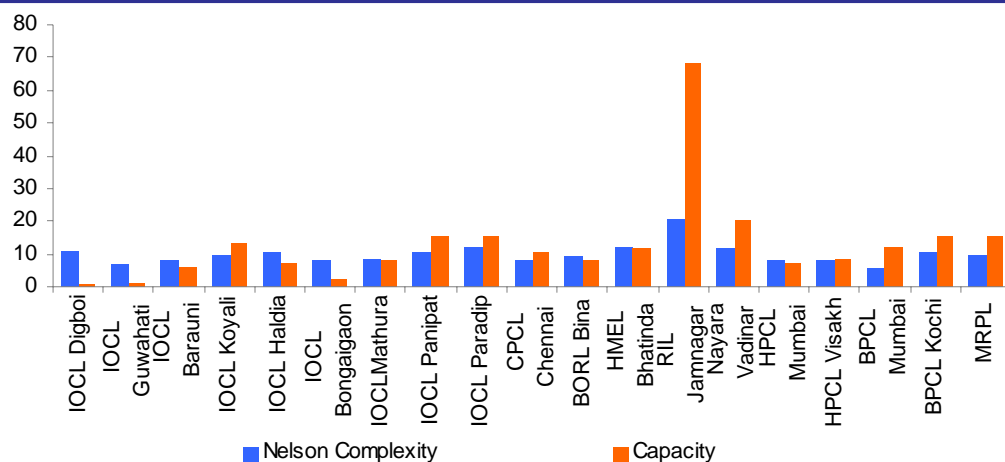


Globally as well, there is more and enough refining capacity, with complex capacity getting added every year in excess of growth in demand. For instance, as against a demand growth of 1 mbpd and 1.2mbpd in CY19 and CY20, expected refining capacity addition is 1.6mbpd and 1 mbpd.

Against this backdrop, we wonder if an investment in BPCL's refining capacities can be termed as a strategic investment. In addition, as BPCL's refinery is vintage and there is limited scope and space for up gradation in complexity, we see this as a limiting factor from the investor's perspective.

In our opinion, as far as investment in refining infrastructure is concerned, while it might appear strategic from the perspective of size, given the global refining balance, we believe a investor might not consider it in a similar light.

**India refining capacity and complexity**



Source: Company, Antique

Our assessment of the refining segment's EV pegs it at around ~ INR 480bn, implying a value of INR~15,000/ton of refining capacity which, we believe, is fair, given that the BPCL refineries are vintage ones and have low complexity.

**Refining EV calculations**

	EBITDA	BPCL Share	EV/EBIDTA multiple	EV
Mumbai	23090	100%	6	138537
Kochi	21165	100%	6	126992
Bina	24244	49%	7	83157
Numaligarh	26438	62%	8	131130
<b>Total Refining EV</b>				<b>479816</b>

Source: Company, Antique

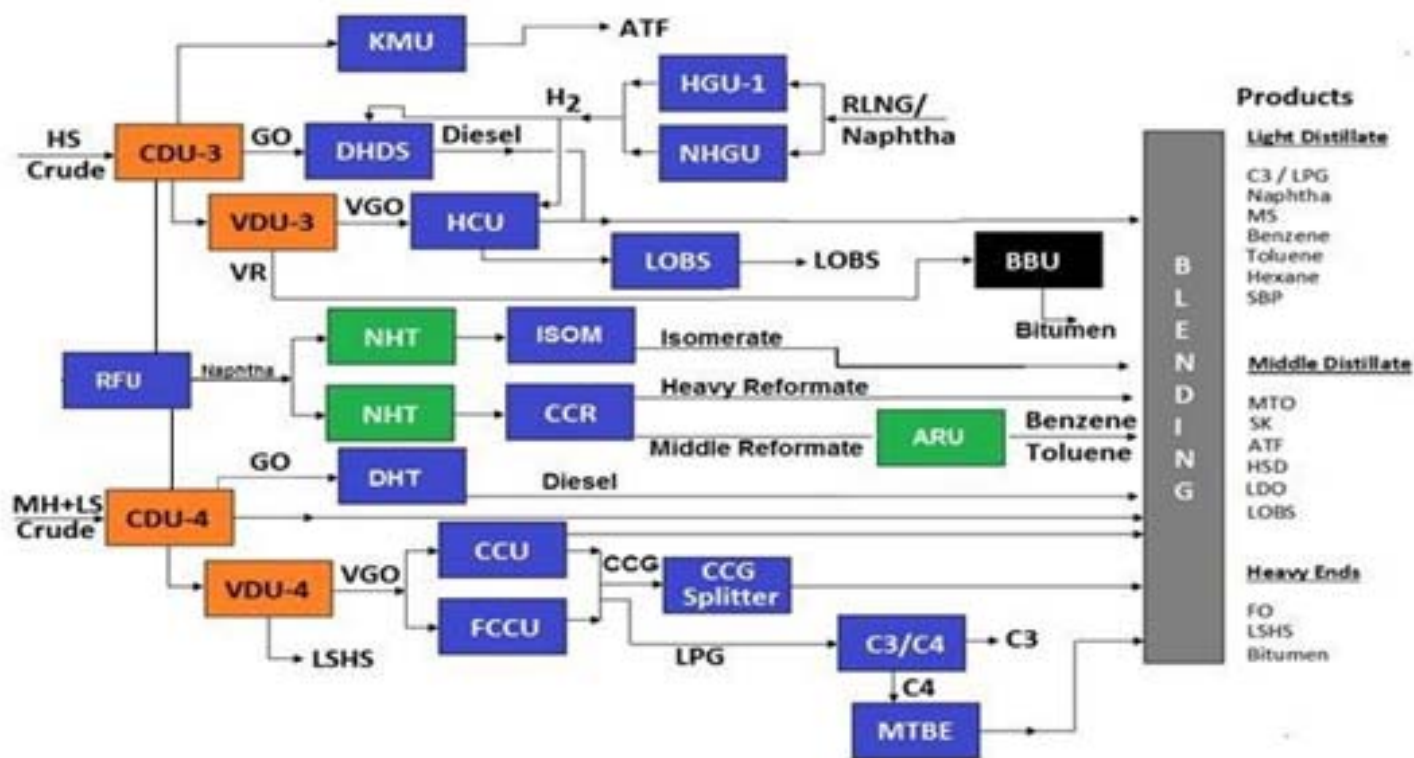
## BPCL Refining Asset

Valuable but not necessarily strategic

### Mumbai Refinery

The Mumbai refinery was commissioned in 1955 with a crude oil processing capacity of 2.2 MMTPA. Its refining capacity has been gradually augmented to the present level of 12 MMT through progressive revamps, the addition of various process units, and the incorporation of advanced refining technologies.

#### Mumbai refinery: Block flow diagram



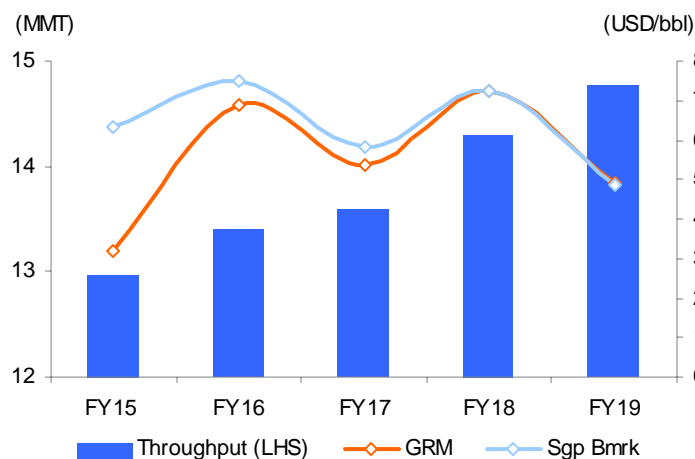
Source: Company, Antique

#### Mumbai refinery: estimation of operating profits

	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e
Throughput (mmt)	12.96	13.41	13.6	14.3	14.78	15
GRM (USD/bbl)	3.17	6.87	5.36	7.22	4.92	5
Operating Expense (USD/bbl)	2.0	2.0	2.0	2.0	2.0	2.0
<b>EBITDA (INRmn)</b>	<b>6948</b>	<b>31355</b>	<b>22475</b>	<b>35292</b>	<b>22144</b>	<b>23090</b>

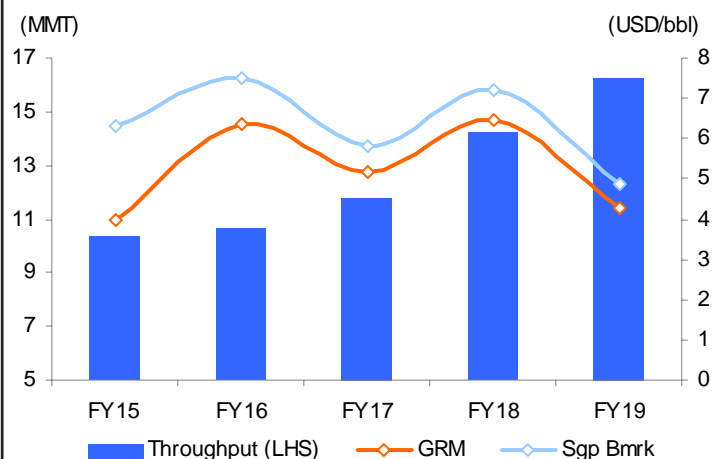
Source: Company, Antique

### Mumbai Refinery throughput/GRM



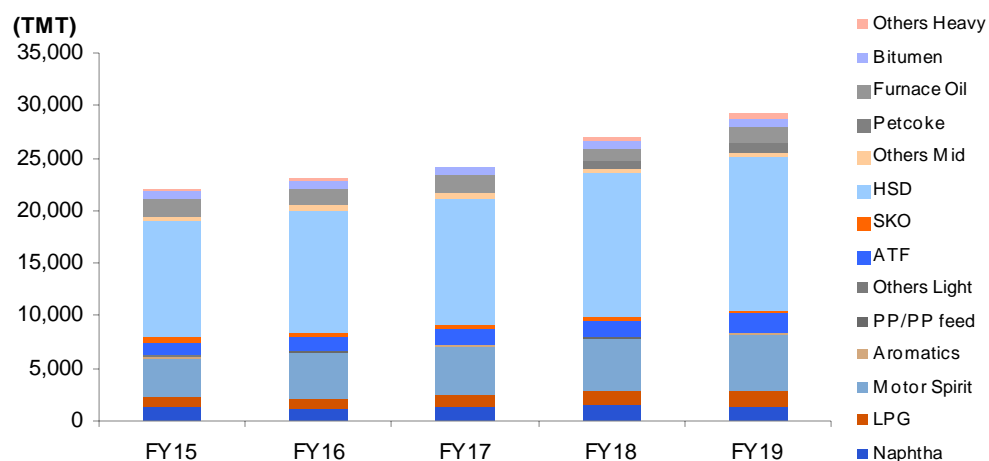
Source: Antique, Company

### Kochi refinery throughput GRM



Source: Antique, Company

### BPCL (SA) production profile (Mumbai and Kochi refineries)

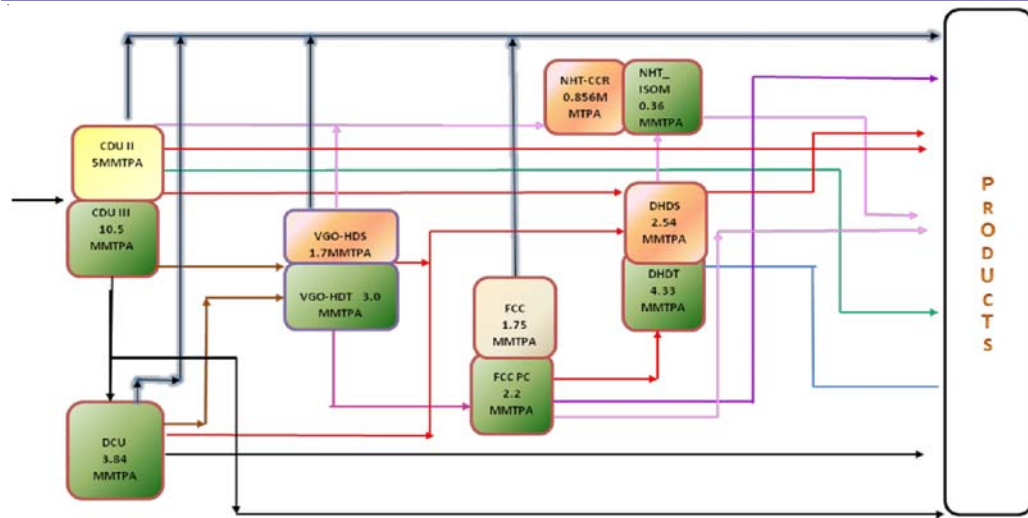


Source: Antique, IEA

### Kochi Refinery

BPCL's Kochi refinery embarked on its journey in 1966 with a capacity of 50,000 barrels per day. Formerly known as Cochin Refineries Ltd., it was originally established as a joint venture in collaboration with Phillips Petroleum Corporation of the US, and later renamed as Kochi Refineries Ltd. At present, it has a crude oil refining capacity of 15.5mmtpa and a Nelson complexity of ~ 11. The product portfolio of this refinery includes petrochemical feedstock and specialty products, in addition to a range of quality fuels.

### Kochi refinery block flow diagram



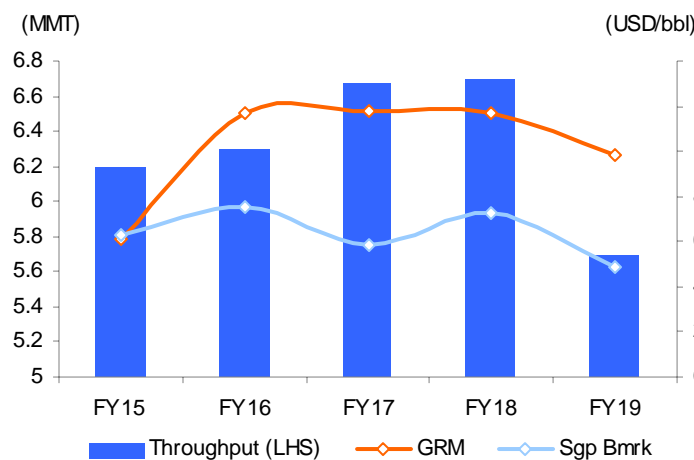
Source: Antique, Company

### Kochi refinery: estimate of operating profits

	FY15e	FY16e	FY17e	FY18e	FY19e	FY20e
Throughput (mmt)	10.4	10.7	11.79	14.25	16.23	16.5
GRM (USD/bbl)	3.97	6.37	5.16	6.44	4.27	5
Operating Expense (USD/bbl)	2.5	2.5	2.5	2.5	2.5	2.5
<b>EBITDA (INRmn)</b>	<b>7005</b>	<b>19881</b>	<b>15425</b>	<b>26545</b>	<b>14740</b>	<b>21165</b>

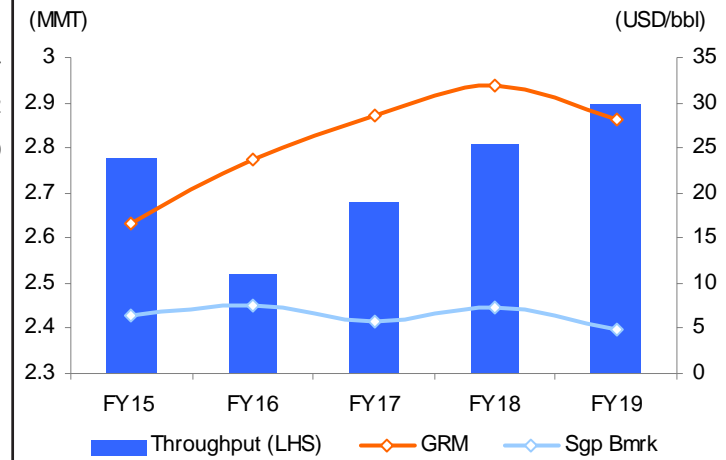
Source: Antique, Company

### Bina throughput GRM



Source: Antique, Company

### Numaligarh throughput GRM



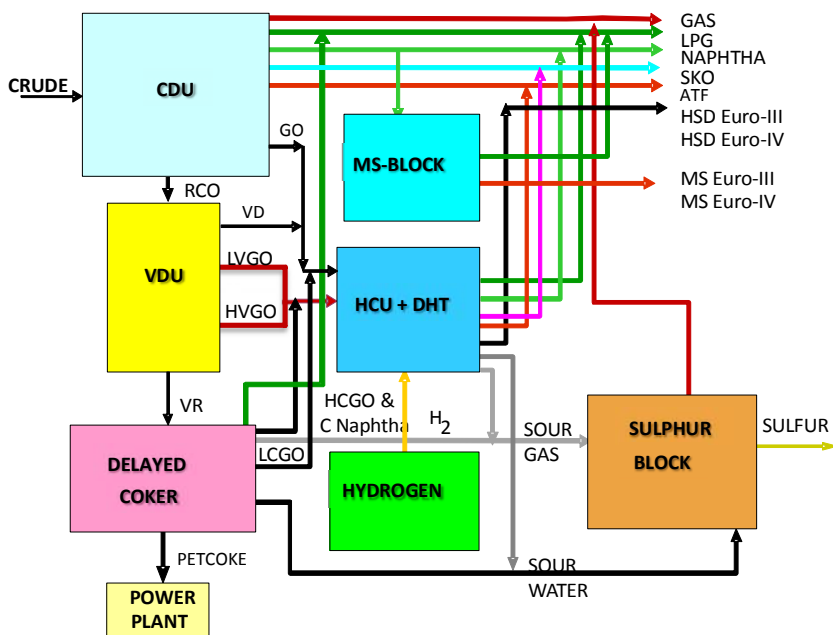
Source: Antique, Company

### Bharat Oman Refinery Ltd, Bina

Bharat Oman Refinery Ltd (BORL), Bina, a joint venture of BPCL and Oman Oil Corporation Ltd. (OOCL), was commissioned in May 2011. The Bina refinery has a current name plate capacity of 7.8mmt and has a Nelson complexity in excess of 9.

#### BORL: Block Flow diagram & key process units

#### Refinery Process



#### Process Capacities

Units	Capacity (MMTPA)	Capacity (BPSD)	Process Licensor
CDU/VDU	6.0	130434	ENGINEERS INDIA LIMITED
FCHCU	1.95	40211	CLG
DHDT	1.63	36010	Chevron Lummus Global
DCU	1.36	24607	ABB Lummus Technology
Hydrogen Unit	0.07		Technip
NHT	1.00	27248	
CCR	0.55	14063	UOP
PENEX	0.302	8385	
Sulphur Recovery Unit	2 x 180 TPD		ENGINEERS INDIA LIMITED

**Nelson Complexity Index – 9.1**

Source: Antique, Company

#### BORL: estimate of operating profits

	FY15	FY16	FY17	FY18	FY19	FY20
Throughput (mmt)	6.2	6.3	6.678	6.7	5.7	7.5
GRM (USD/bbl)	6.1	11.7	11.8	11.7	9.8	10
Operating Expense (USD/bbl)	4.3	4.3	3.8	3.8	3.7	3.7
<b>EBITDA (INR mn)</b>	<b>5113</b>	<b>22383</b>	<b>26276</b>	<b>25025</b>	<b>17840</b>	<b>24244</b>

Source: Antique, Company

### Numaligarh Refinery (NRL)

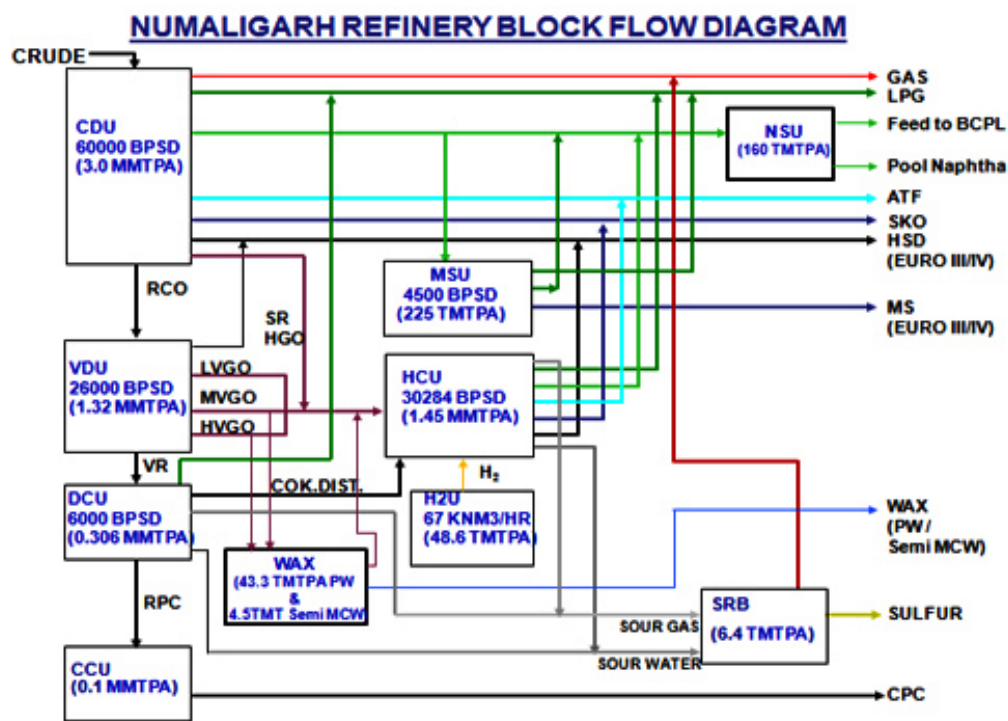
The 3mmt Numaligarh Refinery Ltd. (NRL) was set up at Numaligarh in the district of Golaghat (Assam) in accordance with the provisions made in the historic Assam Accord signed on 15 August 1985 and the refinery being commissioned in April 1999. BPCL's board and the Cabinet Committee of Economic Affairs (CCEA) have recently approved a capex program of INR 226bn to expand the refining capacity at Numaligarh refinery to 9mmtpa.

#### NRL: estimate of operating profits

	FY15	FY16	FY17	FY18	FY19	FY20
Throughput (mmt)	2.78	2.52	2.68	2.81	2.9	2.9
GRM (USD/bbl)	16.67	23.68	28.56	31.92	28.11	25
Operating Expense (USD/bbl)	6.76	7.39	6.38	7.90	7.23	7.23
<b>EBITDA (INR mn)</b>	<b>12621</b>	<b>19714</b>	<b>29231</b>	<b>31910</b>	<b>31065</b>	<b>26438</b>

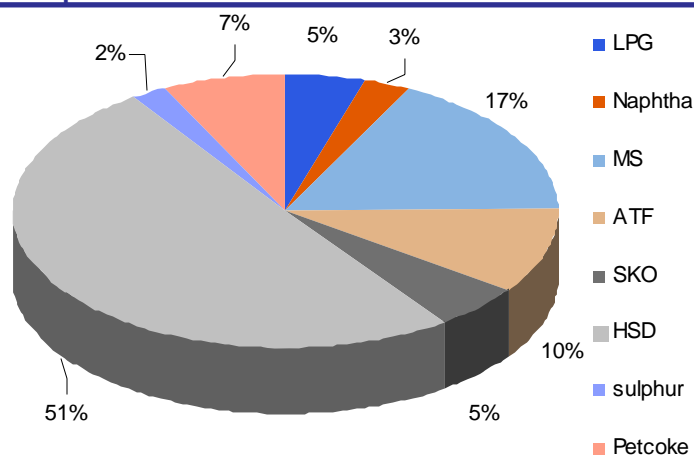
Source: Antique, Company

#### NRL: Block flow diagram



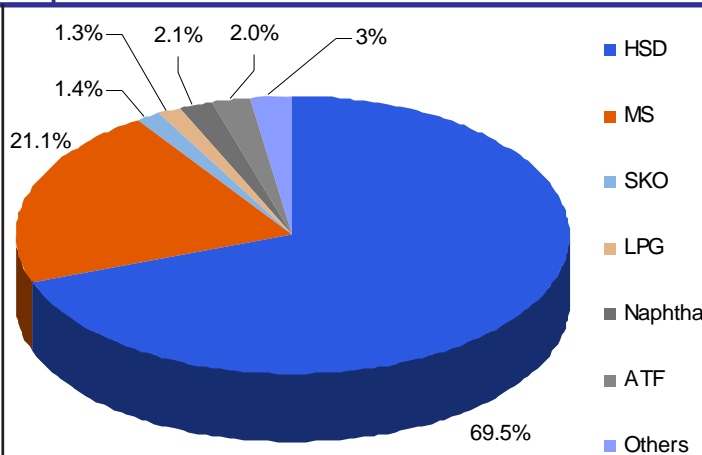
Source: Antique, Company

#### BORL production slate



Source: Antique, IEA

#### NRL production slate



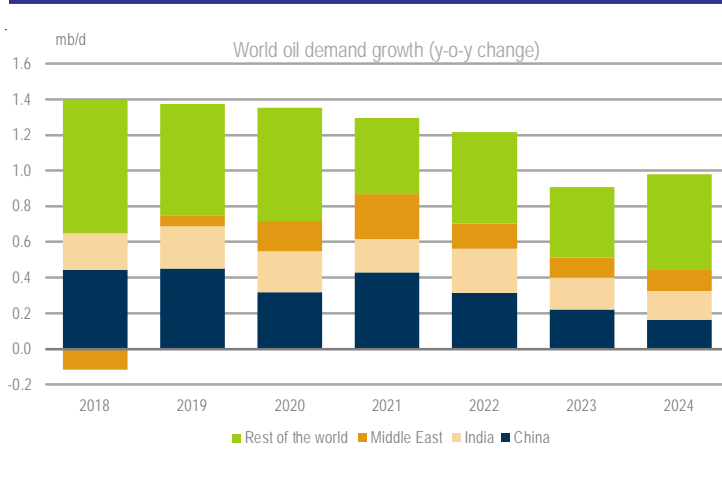
Source: Antique, OPEC

## Marketing

### A Lucrative Opportunity

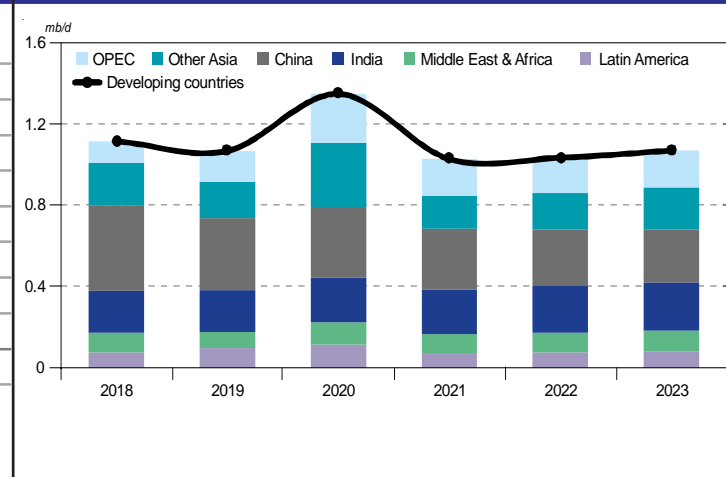
Unlike in the refining industry, where overcapacity has made investments less attractive, the fuel consumption and fuel retail markets offer a relatively attractive value proposition. Given the fact that domestic fuel consumption is slated for consistent growth over the next 10-15 years, and perhaps the fastest as well, access to the Indian retail fuel market becomes an attractive option for investors. Most estimates suggest that petroleum demand in India would almost double by 2035-40, thereby creating a market opportunity twice as big as the one existing today.

#### India leading contributor to global oil demand growth, with growth expected to be similar to China by 2024



Source: Antique, IEA

#### OEPC's estimate of growth in Indian petroleum demand similar to IEA



Source: Antique, OPEC

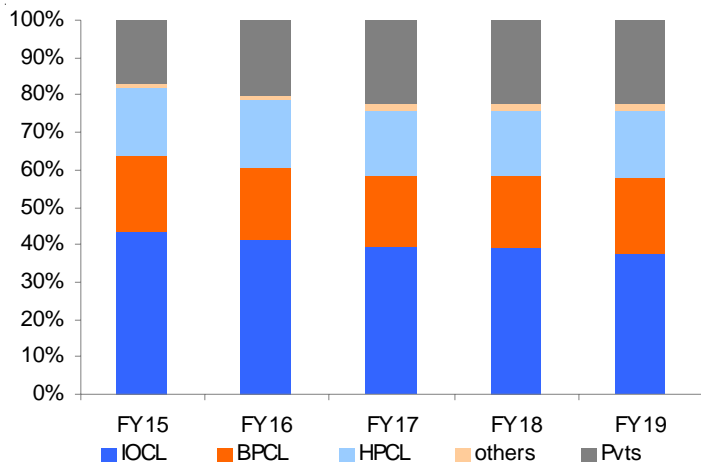
Given the nature of the fuel retail business, strategic infrastructure for market access is of utmost importance as is the time to market. In this scenario, the inorganic route to market access is the most logical choice for a strategic investor, thereby rendering BPCL's market infrastructure invaluable, given its wide reach and ready customer base (retail/bulk/fleet/LPG/SKO).

#### BPCL's marketing infrastructure gives it deep access to a large consumer set



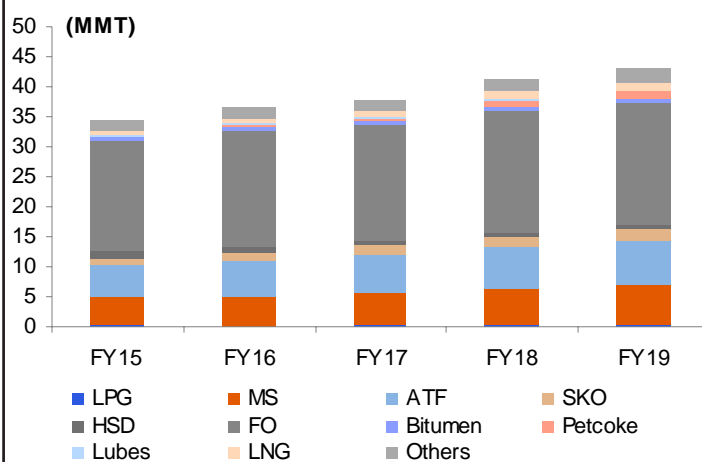
Source: Antique, Company

**Market share: OMCs dominate domestic fuel market with 76% share; of which BPCL has 20% share**



Source: Antique, IEA

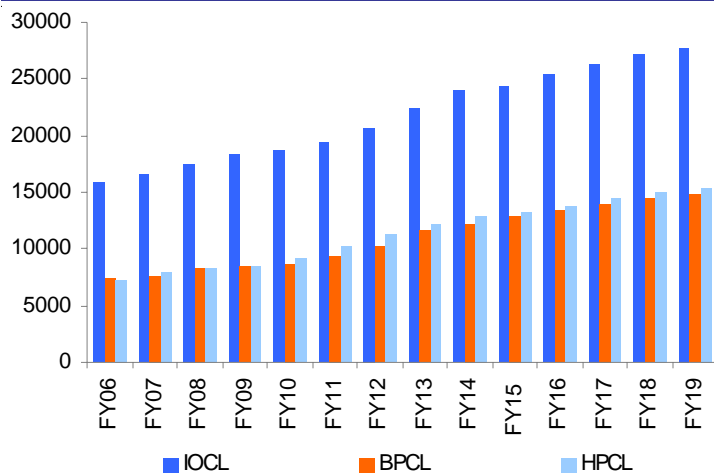
**BPCL's sales mix dominated by HSD**



Source: Antique, OPEC

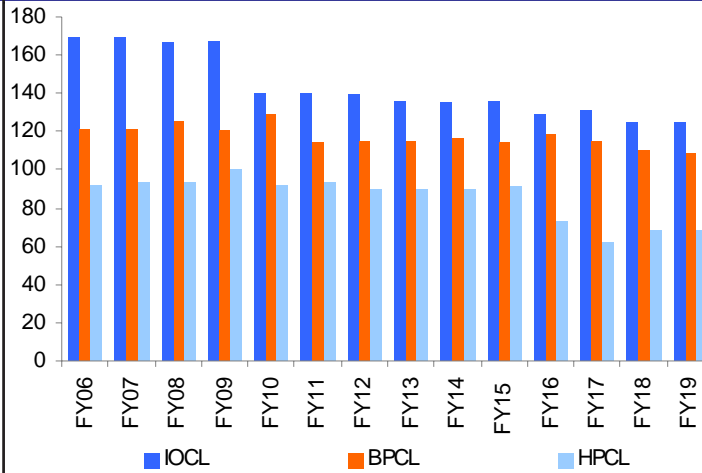
From 2005-06 to 2018-19, when private sector was rather dormant in the fuel retail market, OMCs (including BPCL) practically doubled their retail outlet network, extending their reach to the remotest nooks and corners of the country. Their retail outlets are aided by strategically located depots and pipelines. As we write, out of the 65,554 retail fuel outlets in India, BPCL owns/operates 15,078 (23%); in FY19 itself, 355 new retail outlets were commissioned, of which 89 were in the important priority 'rural' markets; commensurately, BPCL also has a ~20% market share in domestic petroleum products (bulk and retail).

**PSUs (incl. BPCL) have aggressively expanded the retail marketing network over last 10-15 years leaving little room for others**



Source: Antique, Company

**BPCL owns a large number of Fuel depots**

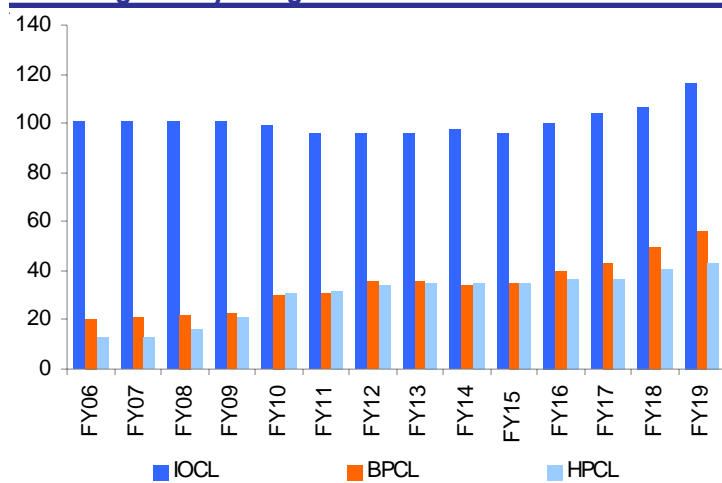


Source: Antique, Company

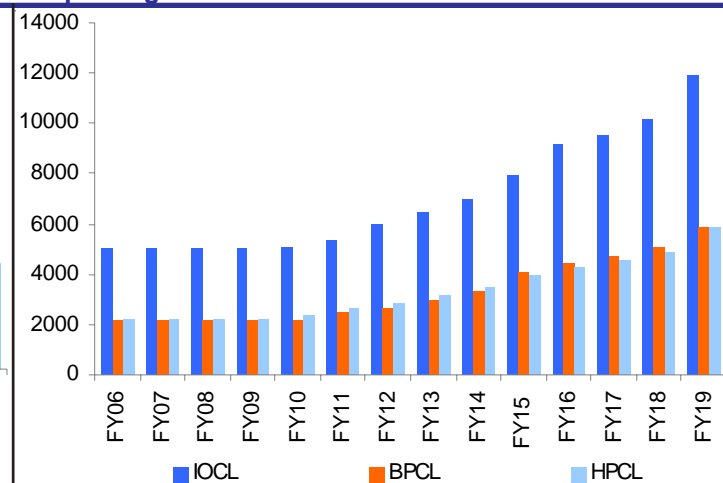


In addition to fuel retailing, the network outlets also act as touchpoints with customers where opportunities like convenience stores, FMCG retail, restaurants, vehicle repair, insurance, etc. can be explored. Convenience stores branded as 'In & Out' already operate out of 150 outlets in BPCL's network. BPCL has also commissioned 16 FINO Payments Bank branches at its ROs and has commissioned financial inclusion services at 477 ROs in the last year through FINO Payments Bank to extend financial operations for the convenience of its customers.

**While Aviation fuel supply network is dominated by IOCL, BPCL has gradually strengthened its foothold**



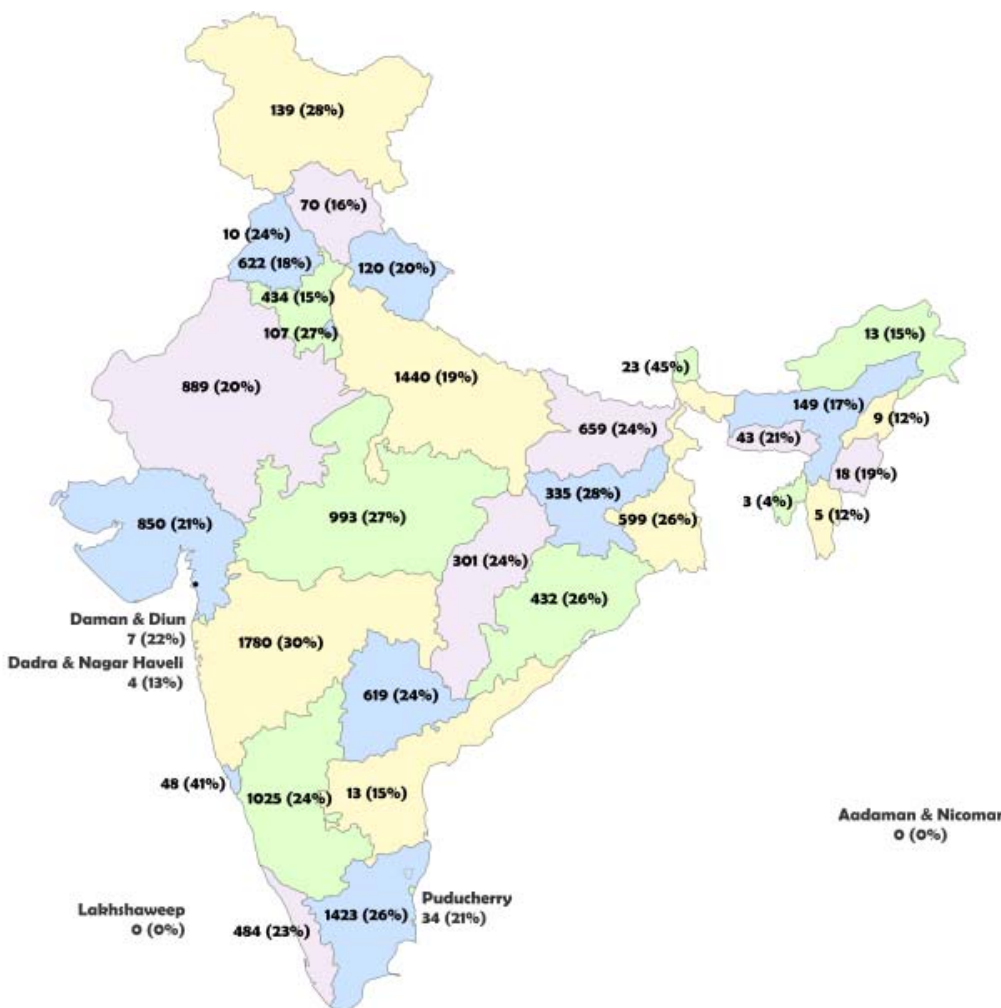
**On the lines of petrol/diesel retailing, OMCs have also invested in expanding LPG distribution**



Source: Antique, Company

Source: Antique, Company

**BPCL retail network out reach**



% of BPCL's retail network share in respective states\*

State	BPCL	BPCL (%)
Andhra Pradesh	760	23%
Arunachal Pradesh	13	15%
Assam	149	17%
Bihar	659	24%
Chhatisgarh	301	24%
Delhi	107	27%
Goa	48	41%
Gjarat	850	21%
Haryana	434	15%
HP	70	16%
J&K	139	28%
Jharkhand	335	28%
Karnataka	1025	24%
Kerela	484	23%
MP	993	27%
Maharashtra	1780	30%
Manipur	18	19%
Meghalaya	43	21%
Mizoram	5	12%
Nagaland	9	12%
Orissa	432	26%
Punjab	622	18%
Rajasthan	889	20%
Sikkim	23	45%
Tamil Nadu	1423	26%
Telangana	619	24%
Tripura	3	4%
UP	1440	19%
Uttarakhand	120	20%
WB	599	26%
UT		
Andaman & Nicomar	0	0%
Chandigarh	10	24%
Dadra & Nagar Haveli	4	13%
Daman & Diun	7	22%
LakshshawEEP	0	0%
Puducherry	34	21%

\* Based on FY18 data from MOPNG

Source: Antique, Company

## Pipelines

### The strategic backbone of BPCL's operations

Pipeline infrastructure forms the backbone of fuel retailing network in India; BPCL owns ~ 18% of the country's product pipeline capacity. Pipeline assets, in our view, could be strategic from access-to-market perspective. Besides, BPCL has also firmed up expansion plans with the aim to double its pipelines network by 2024-25. In light of this, the company has received an authorization for setting up a 355 km long products pipeline from its Bina Marketing Installation in Madhya Pradesh to Panki (Kanpur) Installation in Uttar Pradesh for an estimated cost of INR 12bn. The company has also partnered IOCL and HPCL in laying the world's longest (2757 km) LPG pipeline from Kandla to Gorakhpur with a capacity of 8.25mmt.

### BPCL's pipelines

Pipeline	Throughput (TMT)	Length (Km)
LPG- Mumbai -Uran	800	28
Mumbai ManmadPiyala Bijwasan	6000	1389
Mumbai- Refinery Santacruz	1440	15
Kochi Refinery - Kochi Airport (ATF)	600	34
Bina -Kota	4400	259
Kota Jobner	1700	211
Mumbai LOBS	1300	12
Kochi Karur 74% BPCL	3300	292

Source: Company, Antique

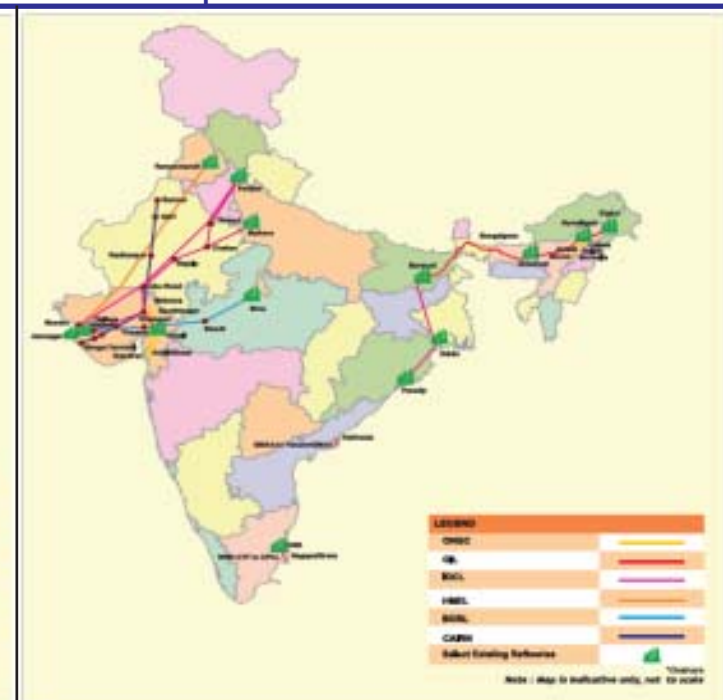
If we use the under construction BINA -Panki pipeline's capex as bench mark, then a back of envelope calculation would peg the replacement cost of BPCL's existing pipeline network at ~ INR 75bn. Incidentally we arrive at a similar enterprise value for pipeline assets, should we ascribe a 9x multiple to our estimated EBITDA (pipeline) of INR 8.2bn.

### BPCL: Refineries and Product Pipelines Network



Source: Company, Antique

### BPCL:Crude oil Pipelines Network



Source: Company, Antique

## Upstream

### Delays and challenging macro impact intrinsic value

Bharat Petro Resources Ltd (BPRL) has a participating interest (PI) in 26 blocks, of which 13 are located in India and the remaining overseas; it also has an equity stake in two Russian entities holding the licence to four producing blocks in Russia. Other than Vankor, Tass in Russia and Lower Zakum, UAE, which are producing assets, other key assets continue to be under appraisal/development. In addition to this, the low crude oil and LNG price environment has made the economics of under-development projects challenging. BPRL (a 100% upstream subsidiary), therefore, continues to be unprofitable, having made the loss of INR 997mn (pre-tax) in FY19. While we do understand that some of these under exploration/under appraisal/under development assets could be extremely prolific, at present our confidence in their value proposition is not very high.

### Valuation: Upstream assets

	Stake	Status	Operator	Reserves		Total	EV/BoE	Value	Value
				Oil (mmt)	Gas (tcf)	(mmboe)		(INRmn)	per Sh
Area 1 Rovuma	10%	Under Development	Total		60	12931	1.14	103019	47.5
Vankor	7.89%	Producing	Rosneft	311	4	2969	3	49197.2	22.7
Tass	9.87%	Producing	Rosneft	162	6.4	2295	3	47569.7	21.9
<b>Brazil</b>									
BM-C-30- Wahoo	13%	Under Appraisal	BP			100	4	3500.0	1.6
BM-SEAL-11	20%	Under Appraisal	Petrobras			250	4	14000.0	6.5
BM-POT-16	10%	Under Appraisal	Petrobras			62	4	1736.0	0.8
<b>Total</b>								<b>219022</b>	<b>101.0</b>
BPRL Debt								163904.2	75.6
Cash								3083.6	1.42
<b>Equity Value</b>								<b>58201</b>	<b>26.8</b>

Source: Company, Antique

## Key upstream block

Block	Location	Operator	Stake	Status Updates
Vankorneft	Russia	Rosneft	7.90%	JSC Vankorneft produced approx. 15.9 MMT of Oil and 7.1 BCM of Gas BPRL's effective share being 1.25 MMT Oil and 0.56 BCM Gas BPCL (BPRL) received effective dividend of USD 82mn
Tass Yuryakh	Russia	Rosneft	9.87%	TYNGD produced approx. 3.26 MMT of Oil and 1.2 BCM of Gas BPRL's effective share being 0.32 MMT Oil and 0.11 BCM Gas BPCL(BPRL) received effective dividend of USD 45mn
Onshore Block 1	UAE			Under Exploration Concession has three exploration phases spread over total maximum period of 9 years effective from 24 March 2019
Lower Zakum	UAE		3%	BPRL along with OVL and IOCL as a consortium acquired 10% stake The Concession has a term of 40 years effective from 9 March 2018. Production from the field during the year 2018-19 has been 144.27 million barrels BPRL's effective entitlement being approx. 4.33
Rovuma-1	Mozambique	TOTAL SA	10%	75 trillion cubic feet of recoverable natural gas Development of an integrated onshore LNG project consisting of two liquefaction trains with total name plate capacity of 12.88 MMTPA in progress
Sergipe Alagoas BM-SEAL-11	Brazil	Petrobras	20%	Concession currently consists of three blocks Four discoveries of oil and gas i.e. 'Barra', 'Farfan', 'Cumbe' and 'Barra' Consortium is carrying out appraisal activities
Potiguar BM-POT-16	Brazil	Petrobras	10%	Minimum commitment activities have since been completed, Based on drilling of one exploration well called "Ararauna", appraisal plan approved
Campos (BM-C-30)	Brazil	BP	12.50%	Number of sizable prospects identified based on the old 3D seismic data During the exploration period , Wahoo discovery was announced. Two Appraisal well and Pre-Feed engineering stuides completed Extension of Wahoo Appraisal Plan from September 2015 to June 2022 approved
Nunukan Block	Indonesia	Pertamina	12.50%	Discovery of oil and natural gas in Badik 1 and West Badik-1 wells Plan of Development (POD-1) of these fields has been approved Parang-1 drilled in 2017 ranked amongst the Top 10 discoveries of the world for 2017 FEED and acquisition of 3D sesimic completed

Source: Company, Antique

## Other blocks under exploration

### Australia and East Timor

	Operator	BPCL Stake	Partners
JPDA 06-103	Oilex	20.00%	GSPC, Videocon, Japan Energy, Pan Pacific Petroleum
EP-413	Norwest Energy	27.80%	AWE Perth Pty Limited

### Within India

	Operator	BPCL Stake	Partners
<b>NELP-IV</b>			
CY/ONN/2002/2	ONGC	40.00%	ONGC
<b>NELP-VI</b>			
CY/ONN/2004/2	ONGC	20.00%	ONGC
<b>NELP-VII</b>			
RJ/ONN/2005/1	HOEC, BPRL	33.33%	IMC
<b>NELP-IX</b>			
CB/ONN/2010/11	GAIL, BPRL	25.00%	EIL, BIFL, MIEL
AA/ONN/2010/3	OIL	20.00%	ONGC
CB-ONN-2010/8	BPRL, GAIL	25.00%	EIL, BIFL, MIEL

Source: Company, Antique

## Other Strategic Investments

### Streamlining of investment portfolio could be in the offing

BPCL holds investments in multiple ventures, some strategic, some not as much. With transfer of management control, we believe that optimization of its investment portfolio could be in the offing, with possible dilution of holding in listed/unlisted ownership. Among listed entities BPCL holds PLNG (12.5%), IGL (22.5%) and OINL (2.47%). In addition 9.3% of BPCL's own shares outstanding are held by BPCL investment trust.

### Streamlining could be in the offing

Investments	Shares (mn)	INR mn
Numaligarh Refinery Limited	454	4535.5
Bharat Petro Resources Limited	5,000	54,944.10
Bharat Gas Resources Limited*	160	1600
Bharat Oman Refineries Limited (BORL)	889	8886.1
Delhi Aviation Fuel Facility Private Limited	61	606.8
Maharashtra Natural Gas Limited*	22	-
Sabarmati Gas Limited*	10	-
Central UP Gas Limited*	15	-
Bharat Stars Services Pvt. Ltd	10	100
Bharat Renewable Energy Ltd	3	33.6
Mumbai Aviation Fuel Farm Facility Pvt Ltd	48	482.9
Kochi Salem Pipeline Private Limited	96	962.5
BPCL-KIAL Fuel Farm Facility Private Limited	7	66.6
Haridwar Natural Gas Private Limited*	13	-
Goa Natural Gas Private Limited*	10	-
Ratnagiri Refinery & Petrochemical Ltd	25	250
Matrix Bharat Pte. Ltd.	2	84.1
Share warrants of BORL	0	0
of INR 10 each (fully paid up)	487	4868.9
of INR 15 each (fully paid up)	299	4487.9
of INR 18 each (fully paid up)	361	6500
BORL 0% Compulsorily Convertible Debenture	1,000	10,000.00
Petronet LNG Limited	188	0
Indraprastha Gas Limited	158	0
GSPL India Gasnet Ltd.*	51	0
GSPL India Transco Ltd.*	42	0
Petronet CI Limited	2	15.8
Fino PayTech Ltd	28	2510
Petronet India Limited	16	1.6
Oil India Limited *	26.75	4958.2
Cochin International Airport Limited *	13.125	1143
Kannur International Airport Limited	22	2160
<b>Total</b>		<b>109197</b>

Source: Company, Antique

### \*Bharat Gas Resources Limited to include investments in

	INR mn
Sabarmati Gas Limited	1224
Central UP Gas Limited	150
Haridwar Natural Gas Private Limited	75
Goa Natural Gas Private Limited	75
Petronet LNG Limited	987.5
Indraprastha Gas Limited	315
GSPL India Gasnet Ltd.	425.7
GSPL India Transco Ltd.	374
Maharashtra Natural Gas Limited	225
<b>Total</b>	<b>3851.2</b>

Source: Company, Antique

## Valuation and View

BPCL has generated a return of ~ 88% in the past 12 months, 53% of which was in the last three months; the return has come in much ahead of its peers IOCL (2%) and HPCL (35%), primarily on account of an invigorated investor interest due to news flow on its privatisation. The sentiment is further strengthened by improving refining margins and marketing margins over the Jul-Sep 2019 period.

Our analysis suggests that, at CMP, while BPCL is factoring in most of the positives, a further upside resulting from capital and operational efficiencies following the change in ownership cannot be ruled out. Our SOTP valuation suggests a value of INR 560/sh (where we value the refining, marketing and pipeline segments on an EV/EBITDA basis but the upstream segment on an EV/BOE basis). However, in case of the Mozambique asset, we have taken the recent transaction and transfer of Anadarko's (operator of Rovuma-1 block) to TOTAL SA as our basis of valuation.

While we base our estimates of optimum valuation, considering a GRM of USD 5/bbl and gross marketing margins of INR ~5,300/ton, our sensitivity analysis reveals that each USD 1/ bbl improvement in GRM can potentially add INR114bn to BPCL's market cap and each INR 500/ton improvement in marketing margin ~ INR 214bn.

### SOTP valuation

	EV	EBITDA	Multiple	Value(Inr/sh)
Refining	290928	48488	6	134
Pipeline	73330	8148	9	34
Marketing	644067	71563	9	297
<b>SA EV</b>	<b>1008325</b>			<b>465</b>
<b>JV Refining</b>				
BORL	71277	11880	6	33
Numaligarh	114739	16391	7	53
<b>JV Refining EV</b>	<b>186016</b>			<b>86</b>
				0
<b>Upstream Investment</b>	<b>219022</b>			<b>101</b>
<b>Total EV of the Firm</b>	<b>1413363</b>			<b>652</b>

### Listed Investments

Holding Discount	20%	Shares Held/ outstanding	CMP	
Petronet LNG	37500	188	250	17.3
IGL	46620	158	370	21.5
Oil India	3852	27	180	1.8
BPCL Trust	84448	203	520	38.9

<b>Other Investments</b>	<b>12107</b>			<b>5.6</b>
<b>Current Investments</b>	<b>50759</b>			<b>23.4</b>
<b>Cash</b>	<b>954</b>			<b>0.4</b>
<b>Debt</b>	<b>272093.2</b>			<b>125.4</b>
<b>BPRL Net Debt</b>	<b>160820.6</b>			<b>74.1</b>
<b>Equity Value</b>	<b>1216689</b>	<b>2169</b>	<b>561</b>	<b>561</b>

Source: Company, Antique

### Upstream Valuation

	Stake	Status	Operator	Reserves		Total	EV/BoE	Value	Value
				Oil (mmt)	Gas (tcf)	(mmboe)		(INRmn)	per Sh
Area 1 Rovuma	10%	Under Development	Total		60	12931	1.14	103019	47.5
Vankor	7.89%	Producing	Rosneft	311	4	2969	3	49197.2	22.7
Tass	9.87%	Producing	Rosneft	162	6.4	2295	3	47569.7	21.9
<b>Brazil</b>									
BM-C-30- Wahoo	13%	Under Appraisal	BP			100	4	3500.0	1.6
BM-SEAL-11	20%	Under Appraisal	Petrobras			250	4	14000.0	6.5
BM-POT-16	10%	Under Appraisal	Petrobras			62	4	1736.0	0.8
<b>Total</b>								<b>219022</b>	<b>101.0</b>
BPRL Debt								163904.2	75.6
Cash								3083.6	1.42
<b>Equity Value</b>								<b>58201</b>	<b>26.8</b>

Source: Company, Antique

### Sensitivity Analysis: target valuation sensitivity to GRM and marketing margin

(INR/Sh)		GRM (USD/bbl)				
Marketing Margin (INR/ton)		3	4	5	6	7
	4,300	257	310	363	416	469
	4,800	356	409	462	515	568
	5,300	455	508	561	614	667
	5,800	554	607	660	713	766
	6,300	653	706	759	812	865

Source: Antique

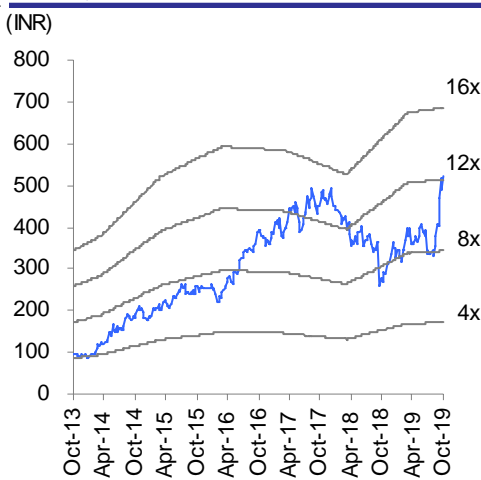
### Key Assumptions

	FY15	FY16	FY17	FY18	FY19	FY20e	FY21e
<b>Refining</b>							
Brent (USD/bbl)	84.5	48.26	49.9	57.9	71	70	70
<b>Throughput (MMT)</b>	<b>23.4</b>	<b>24.15</b>	<b>25.4</b>	<b>28.54</b>	<b>31</b>	<b>31</b>	<b>31</b>
Mumbai	13.0	13.4	13.5	14.29	14.8	15	15
Kochi	10.4	10.7	11.8	14.25	16.2	16	16
<b>GRMs (USD/bbl)</b>	<b>3.6</b>	<b>6.6</b>	<b>5.3</b>	<b>6.8</b>	<b>4.6</b>	<b>5.0</b>	<b>5.0</b>
Mumbai	4.0	6.87	5.36	7.22	5	5	5
Kochi	3.2	6.37	5.16	6.41	4.3	5	5
<b>Marketing</b>							
Sales excl. exports (MMT)	34.4	38.4	40.17	43.2	44.97	46.7688	48.63955
Marketing Margin (INR/T)	5634.9	4555	3978	4276	3886	5062	5064
<b>Exchange Rate (Rs./US\$)</b>	<b>61.2</b>	<b>65.5</b>	<b>67.1</b>	<b>64.5</b>	<b>70</b>	<b>70</b>	<b>70</b>

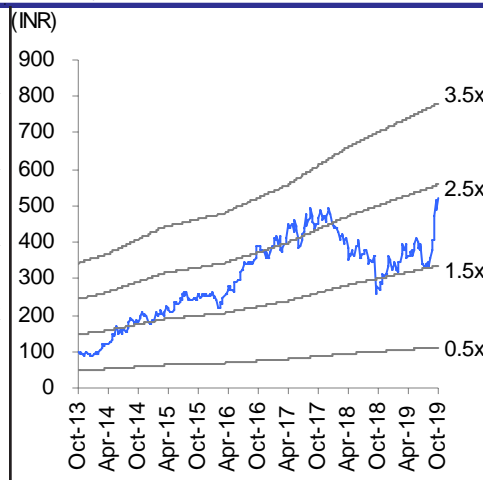
Source: Company, Antique



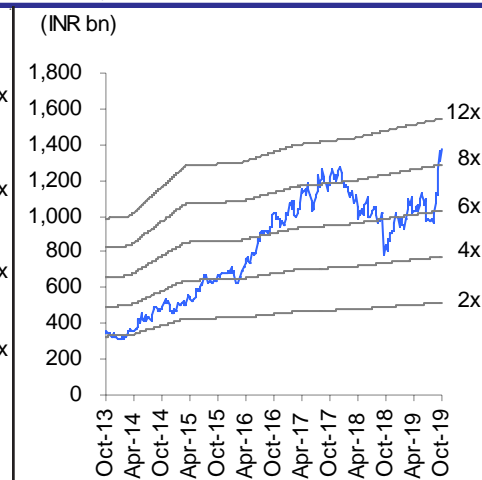
**BPCL-P/E Band**



**BPCL-P/BV Band**



**BPCL EV/EVITDA Band**



Source: Bloomberg, Antique

**Peer comparison**

Company Name	Mcap (USDmn)	EV (USDmn)	EBIDTA (USDmn)	EBIDTA margin (%)	PAT (USDmn)	P/E (x)	EV/EBITDA (x)	P/BV (x)	RoE (%)
Valero Energy Corp	38,627	47,922	7,102	6.5	3,296	10.7	6.7	1.7	15.2
Formosa Petrochemical Corp	30,362	27,915	2,669	11.8	1,849	16.3	10	11.2	15.6
Thai Oil Pcl	4,545	4,852	899	7.7	460	9.9	5.4	1.0	10.1
Caltex Australia Limited	4,691	6,203	831	5.3	352	13.2	7.5	2.0	15.0
Sk Energy Co Ltd	12,889	13,504	3,148	6.8	1,510	8.5	4.3	0.7	8.6
RIL	1,26,287	1,33,324	15,986	16.9	8,224	14.7	8.3	1.8	12.6
Hindustan Petroleum Corp	6,803	9,680	1,549	3.9	942	7.1	6.3	1.3	18.7
Bharat Petroleum Corp Ltd	16,321	19,774	2,333	5.3	1,377	11.1	8.5	2.2	20.8
Indian Oil Corporation Ltd	19,422	30,657	5,420	6.7	2,704	7.1	5.7	1.1	14.9
<b>Average</b>						<b>10.2</b>	<b>6.9</b>	<b>2.2</b>	<b>16.1</b>

Source: Company, Antique

**About Bharat Petroleum Corporation Ltd**

BPCL is an Indian public sector company having a global presence. It is the 225th-biggest corporation in the world this year.

Burmah Oil Company, incorporated in the year 1886 in Scotland, was earlier known as Rangoon Oil Company, which was commissioned in the year 1871 to refine the crude from the wells in erstwhile Burma. The Burma Shell Oil Storage and Distribution Company of India Ltd was formed in the year 1928 with an alliance between the Burmah Oil Company and the Asiatic Petroleum Company of India to import and market kerosene in India. In 1976, the Government of India took over the Burma Shell Oil Storage and Distribution Company of India Ltd and formed Bharat Refineries Ltd., which was rechristened as BPCL in 1977.

## Financials

### Profit and loss account (INRm)

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
<b>Net Revenue</b>	<b>20,22,106</b>	<b>23,63,131</b>	<b>29,72,751</b>	<b>30,48,116</b>	<b>31,70,041</b>
Op. Expenses	19,13,813	22,46,442	28,53,108	29,11,942	30,27,893
<b>EBITDA</b>	<b>1,08,293</b>	<b>1,16,689</b>	<b>1,19,643</b>	<b>1,36,174</b>	<b>1,42,148</b>
Depreciation	18,913	26,485	31,893	20,341	22,441
<b>EBIT</b>	<b>89,380</b>	<b>90,204</b>	<b>87,750</b>	<b>1,15,832</b>	<b>1,19,706</b>
Other income	26,007	30,109	29,836	31,336	32,836
Interest Exp.	4,959	8,333	13,190	14,380	15,755
<b>Reported PBT</b>	<b>1,10,428</b>	<b>1,11,980</b>	<b>1,04,396</b>	<b>1,32,789</b>	<b>1,36,788</b>
Tax	30,035	32,787	33,076	33,463	34,471
<b>Reported PAT</b>	<b>80,393</b>	<b>79,193</b>	<b>71,320</b>	<b>99,326</b>	<b>1,02,317</b>
<b>Net Profit</b>	<b>80,393</b>	<b>79,193</b>	<b>71,320</b>	<b>99,326</b>	<b>1,02,317</b>
<b>Adjusted PAT</b>	<b>80,393</b>	<b>79,193</b>	<b>71,320</b>	<b>99,326</b>	<b>1,02,317</b>
<b>Adjusted EPS (INR)</b>	<b>37.1</b>	<b>36.5</b>	<b>32.9</b>	<b>45.8</b>	<b>47.2</b>

### Balance sheet (INRm)

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
Share Capital	13,113	19,663	19,669	19,669	19,669
Reserves & Surplus	2,83,571	3,21,851	3,47,708	3,97,371	4,48,530
<b>Networth</b>	<b>2,96,684</b>	<b>3,41,514</b>	<b>3,67,377</b>	<b>4,17,040</b>	<b>4,68,198</b>
Debt	2,10,038	2,28,512	2,72,093	3,03,093	3,27,093
Net deferred Tax liabilities	35,017	49,533	61,690	61,690	61,690
<b>Capital Employed</b>	<b>5,41,739</b>	<b>6,19,559</b>	<b>7,01,160</b>	<b>7,81,823</b>	<b>8,56,981</b>
Gross Fixed Assets	3,18,427	4,33,415	4,68,510	5,00,126	5,27,617
Capital work in progress	1,12,167	40,437	67,026	97,026	1,27,026
<b>Net Fixed Assets</b>	<b>4,30,594</b>	<b>4,73,852</b>	<b>5,35,536</b>	<b>5,97,152</b>	<b>6,54,643</b>
Investments	1,39,092	1,51,396	1,53,817	1,56,817	1,59,817
Non Current Investments	85,489	1,01,445	1,03,058	1,03,058	1,03,058
Current Investments	53,603	49,952	50,759	53,759	56,759
<b>Current Assets, Loans &amp; Adv.</b>					
Inventory	1,97,980	2,08,738	2,15,447	2,22,614	2,31,822
Debtors	47,582	51,526	66,707	66,808	69,480
Cash & Bank balance	647	881	954	14,472	23,626
Loans & advances and others	1,04,001	1,15,664	1,83,811	1,84,811	1,85,811
<b>Current Liabilities &amp; Prov.</b>					
Liabilities	3,55,605	3,53,847	4,22,544	4,28,284	4,35,650
Provisions	22,553	28,814	32,568	32,568	32,568
<b>Net Current Assets</b>	<b>(27,947)</b>	<b>(5,852)</b>	<b>11,807</b>	<b>27,853</b>	<b>42,521</b>
<b>Application of Funds</b>	<b>5,41,739</b>	<b>6,19,396</b>	<b>7,01,160</b>	<b>7,81,823</b>	<b>8,56,981</b>

### Per share data

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
No. of shares (m)	2,169	2,169	2,169	2,169	2,169
Diluted no. of shares (m)	1,967	1,967	1,967	1,967	1,967
BVPS (INR)	150.82	173.61	186.76	212.01	238.01
CEPS (INR)	50.48	53.72	52.47	60.83	63.42
DPS (INR)	24.26	21.00	19.00	25.25	26.01

Source: Company, Antique

### Cash flow statement (INRm)

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
<b>PBT</b>	<b>1,10,428</b>	<b>1,11,980</b>	<b>1,04,396</b>	<b>1,32,789</b>	<b>1,36,788</b>
Depreciation & amortisation	18,913	26,485	31,893	20,341	22,441
Interest expense	4,959	8,333	13,190	14,380	15,755
(Inc)/Dec in working capital	(27,937)	(17,229)	(17,469)	(2,529)	(5,514)
Tax paid	(29,921)	(23,018)	(21,746)	(33,463)	(34,471)
Less: Interest/Div. Income Recd.	(18,615)	-	-	-	-
Other operating Cash Flow	363	-	-	-	-
<b>CF from operating activities</b>	<b>58,190</b>	<b>1,06,551</b>	<b>1,10,264</b>	<b>1,31,518</b>	<b>1,34,999</b>
Capital expenditure	(91,154)	(69,742)	(93,577)	(81,958)	(79,932)
Inc/(Dec) in investments	(17,904)	(12,190)	(1,710)	(3,000)	(3,000)
Add: Interest/Div. Income Recd.	18,615	-	-	-	-
<b>CF from investing activities</b>	<b>(90,443)</b>	<b>(81,932)</b>	<b>(95,287)</b>	<b>(84,958)</b>	<b>(82,932)</b>
Inc/(Dec) in debt	74,124	18,474	43,581	31,000	24,000
Dividend Paid	(53,837)	-	-	-	-
Others	(8,061)	(42,695)	(58,647)	(64,043)	(66,913)
<b>CF from financing activities</b>	<b>12,227</b>	<b>(24,221)</b>	<b>(15,066)</b>	<b>(33,043)</b>	<b>(42,913)</b>
<b>Net cash flow</b>	<b>(20,027)</b>	<b>397</b>	<b>(90)</b>	<b>13,518</b>	<b>9,154</b>
Opening balance	20,674	647	1,044	954	14,472
<b>Closing balance</b>	<b>647</b>	<b>1,044</b>	<b>954</b>	<b>14,472</b>	<b>23,626</b>

### Growth indicators (%)

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
Revenue(%)	7.33	16.86	25.80	2.54	4.00
EBITDA(%)	1.46	7.75	2.53	13.82	4.39
Adj PAT(%)	13.93	-1.49	-9.94	39.27	3.01
Adj EPS(%)	13.93	-1.49	-9.94	39.27	3.01

### Valuation (x)

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
P/E	14.1	14.3	15.9	11.4	11.1
P/BV	3.5	3.0	2.8	2.5	2.2
EV/EBITDA	11.92	11.25	11.32	10.06	9.72
EV/Sales	0.64	0.56	0.46	0.45	0.44
Dividend Yield (%)	4.6	4.0	3.6	4.8	5.0

### Financial ratios

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
RoE (%)	28.2	24.8	20.1	25.3	23.1
RoCE (%)	23.6	20.7	17.8	19.8	18.6
Asset/T.O (x)	5.7	5.4	5.9	5.2	4.8
Net Debt/Equity (x)	0.5	0.5	0.6	0.6	0.5
EBIT/Interest (x)	23.3	14.4	8.9	10.2	9.7

### Margins (%)

Year ended Mrch 31	FY17	FY18	FY19	FY20e	FY21e
EBITDA Margin(%)	5.4	4.9	4.0	4.5	4.5
EBIT Margin(%)	4.4	3.8	3.0	3.8	3.8
PAT Margin(%)	3.9	3.3	2.4	3.2	3.2

Source: Company Antique







## Valuation Guide

Company	Reco	CMP (INR)	TP (INR)	Return (%)	M.Cap (INRbn)	M.Cap (USDbn)	Net profit (INRbn)			ABVS (INR)			P/AdjBV (x)			NNPA Ratio (%)			P/E (x) FY20	RoE (%) FY20	RoA (%) FY20	Absolute (%)		
							FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20	FY21				1m	12m	
<b>FINANCIALS</b>																								
Axis Bank	Buy	738	800	8	2,081.8	29.4	46.8	68.0	140.8	221.6	283.7	326.2	3.3	2.6	2.3	2.3	1.6	0.9	30.6	8.8	0.8	5	30	
Bank of Baroda	Buy	93	115	24	357.9	5.1	-72.0	25.4	87.6	77.9	109.1	126.2	1.2	0.9	0.7	3.7	3.4	2.8	16.9	4.4	0.2	-2	-13	
Canara Bank	Hold	195	195	0	147.1	2.1	3.5	19.1	47.7	193.8	223.4	284.4	1.0	0.9	0.7	5.4	4.3	3.1	11.2	5.7	0.3	3	-18	
City Union Bank	Hold	211	220	4	155.3	2.2	6.8	7.1	9.2	60.3	68.9	79.6	3.5	3.1	2.7	1.8	1.7	1.7	22.0	13.7	1.4	-3	24	
DCB Bank	Hold	176	240	36	54.6	0.8	3.3	3.9	5.6	89.2	98.8	113.5	2.0	1.8	1.6	0.7	0.8	0.9	13.8	12.9	1.0	-12	10	
Federal Bank	Buy	82	110	34	163.4	2.3	12.4	16.2	20.6	61.5	66.9	75.4	1.3	1.2	1.1	1.5	1.5	1.1	10.1	11.6	0.9	-12	1	
HDFC Bank	Buy	1,243	1,450	17	6,796.0	95.9	210.8	264.2	328.5	269.6	301.4	346.6	4.6	4.1	3.6	0.4	0.7	0.6	25.7	16.6	1.9	0	29	
ICICI Bank	Buy	477	575	21	3,084.0	43.5	33.6	95.1	177.3	147.5	160.9	180.7	3.2	3.0	2.6	2.3	1.4	1.0	32.4	9.6	0.9	6	37	
IndusInd Bank	Buy	1,315	1,650	25	911.5	12.9	40.5	53.6	70.8	416.5	503.0	598.0	3.2	2.6	2.2	1.2	1.2	0.5	17.4	15.8	1.7	-11	-7	
Karur Vysya Bank	Hold	55	80	45	44.4	0.6	2.1	4.7	6.0	59.2	66.9	74.6	0.9	0.8	0.7	5.0	3.9	3.1	9.5	7.1	0.6	8	-29	
Kotak Mahindra Bank	Buy	1,576	1,725	9	3,009.3	42.5	48.7	64.6	76.9	197.7	226.4	260.8	8.0	7.0	6.0	0.8	0.9	0.9	46.6	14.2	1.9	-4	38	
Punjab National Bank	Hold	62	65	4	285.2	4.0	-99.8	-8.8	81.5	42.9	55.3	65.9	1.4	1.1	0.9	6.6	4.5	4.2	-51.6	-1.8	-0.1	-1	-13	
State Bank of India	Buy	281	365	30	2,504.7	35.3	8.6	165.2	327.7	160.7	189.5	218.3	1.7	1.5	1.3	3.0	2.0	1.8	15.2	8.4	0.4	0	5	
South Indian Bank	Buy	10	14	39	18.7	0.3	2.5	5.0	8.2	20.4	24.2	28.2	0.5	0.4	0.4	3.5	2.3	1.8	3.8	9.4	0.5	-8	-26	
Union Bank of India	Hold	54	55	2	95.6	1.3	-29.5	-8.8	30.7	56.1	62.4	74.1	1.0	0.9	0.7	6.8	4.7	3.4	-24.0	-3.0	-0.2	-3	-22	
YES Bank	Under Review	58	Under Review	-	148.3	2.1	17.2	12.4	31.1	103.6	87.3	107.3	0.6	0.7	0.5	1.9	4.3	2.7	10.9	4.5	0.3	19	-68	
<b>NBFCs</b>																								
Bajaj Finance	Hold	4,047	3,960	(2)	2,346.8	33.1	39.9	59.6	84.5	341.5	580.7	710.1	11.9	7.0	5.7	0.6	0.6	0.5	39.2	22.4	4.6	0	70	
CanFin Homes	Buy	397	490	23	52.8	0.7	3.0	3.7	4.4	131.8	156.4	185.6	3.0	2.5	2.1	0.2	0.4	0.4	14.5	18.8	1.9	-2	48	
Cholamandalam Invst & Fin	Buy	297	351	18	232.2	3.3	11.9	13.1	15.0	394.8	93.9	111.4	0.8	3.2	2.7	1.7	1.6	1.6	17.7	19.4	2.3	-4	17	
Equitas Holding	Buy	96	140	46	32.9	0.5	1.8	3.2	4.4	71.6	80.8	93.6	1.3	1.2	1.0	1.4	0.8	0.8	10.4	12.1	1.7	9	0	
Gruh Finance	Not Rated	318	UR	-	233.2	3.3	4.5	3.9	4.3	25.8	29.3	33.1	12.3	10.9	9.6	0.4	0.1	0.1	59.4	19.4	2.2	19	18	
HDFC	Hold	2,113	2,107	(0)	3,648.6	51.5	96.3	109.2	123.8	449.4	491.7	540.2	4.7	4.3	3.9	0.0	0.0	0.0	33.3	12.4	2.3	4	24	
IIC Housing Finance	Hold	398	380	(4)	200.8	2.8	24.3	25.1	29.6	322.0	361.7	408.0	1.2	1.1	1.0	1.1	0.8	0.8	8.0	14.5	1.2	1	5	
Manappuram	Hold	165	125	(24)	139.3	2.0	9.3	11.8	13.2	53.7	64.8	77.2	3.1	2.5	2.1	0.3	0.6	0.6	11.7	23.4	5.6	15	119	
M&M Finance	Sell	354	335	(5)	218.9	3.1	15.6	13.7	17.5	177.4	191.4	209.2	2.0	1.9	1.7	4.8	5.0	5.2	15.9	12.1	1.9	2	-11	
Muthoot Capital	Buy	472	866	84	7.8	0.1	0.8	0.9	1.1	289.6	343.4	408.5	1.6	1.4	1.2	3.1	3.0	4.0	8.8	17.0	3.1	-15	-43	
Muthoot Finance	Buy	707	927	31	283.4	4.0	19.7	25.3	29.4	244.4	291.2	348.2	2.9	2.4	2.0	2.4	2.0	2.0	11.2	23.6	6.8	3	75	
PNB Hsg. Fin.	Hold	524	684	31	88.1	1.2	11.9	13.9	14.9	450.5	533.5	622.2	1.2	1.0	0.8	0.2	0.3	0.4	6.3	17.9	1.7	-14	-28	
Repco Home Finance	Buy	281	391	40	17.6	0.2	2.3	2.9	3.3	244.1	282.9	326.2	1.1	1.0	0.9	1.9	1.1	1.2	6.0	17.8	2.5	-11	-18	
Shriram City Union	Buy	1,320	1,661	26	87.1	1.2	9.9	10.8	13.3	968.5	1,105.3	1,277.9	1.4	1.2	1.0	5.0	4.1	3.6	8.1	15.7	3.4	-1	-17	
Shriram Transport	Buy	1,149	1,360	18	260.6	3.7	25.6	27.6	30.7	697.9	805.1	926.0	1.6	1.4	1.2	2.6	2.4	2.4	9.4	16.2	2.6	5	6	
Sundaram Finance	Buy	1,622	1,886	16	180.2	2.5	5.3	7.6	9.2	507.8	574.9	574.9	3.2	2.8	2.8	0.8	0.8	0.8	23.6	15.2	2.7	-2	15	
Ujivan Financial	Hold	280	325	16	34.0	0.5	1.5	2.4	3.5	155.0	175.1	203.9	1.8	1.6	1.4	0.3	0.5	0.5	13.9	12.2	1.6	-11	48	

Events Calendar

Oct/Nov 2019

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sun
<b>28 Oct</b>	<b>29 Oct</b>	<b>30 Oct</b>	<b>31 Oct</b>	<b>1 Nov</b>	<b>2 Nov</b>	<b>3 Nov</b>
		Container Corp Lakshmi Machine Works Welspun Enterprises	Blue Dart Express IOCL	Dr. Reddy's Labs JK Lakshmi Cement Kansai Nerolac V-Mart Retail Yes Bank	BEML Escorts	
<b>4 Nov</b>	<b>5 Nov</b>	<b>6 Nov</b>	<b>7 Nov</b>	<b>8 Nov</b>	<b>9 Nov</b>	<b>10 Nov</b>
Bharat Electronics Can Fin Homes HDFC Persistent Systems	Cholamandalam Investment GET&D Gujarat Gas Jindal Steel & Power NCC Tech Mahindra Transport Corp of India	Canara Bank Cipla Godrej Consumer Emami Lupin Voltas	BPCL Engineers India HPCL Solar Industries Trent UPL	Ashok Leyland Bharat Forge Bank of Baroda Dhanuka Agritech Eicher Motors GAIL Gulf Oil Lubricants Gujarat State Petronet Mahindra & Mahindra Greenply Industries Nestle TeamLease Services		
<b>11 Nov</b>	<b>12 Nov</b>	<b>13 Nov</b>	<b>14 Nov</b>	<b>15 Nov</b>	<b>16 Nov</b>	<b>17 Nov</b>
Adani Ports & SEZ Finolex Industries Hindalco Industries Mahanagar Gas Motherson Sumi NMDC Oil India		ABB India BHEL Cadila Healthcare Cera Sanitaryware Thermax	Endurance Technologies Grasim Industries Mphasis			
<b>18 Nov</b>	<b>19 Nov</b>	<b>20 Nov</b>	<b>21 Nov</b>	<b>22 Nov</b>	<b>23 Nov</b>	<b>24 Nov</b>
<b>25 Nov</b>	<b>26 Nov</b>	<b>27 Nov</b>	<b>28 Nov</b>	<b>29 Nov</b>	<b>30 Nov</b>	

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